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CONSIDERATION OF GUIDELINES ON KEY SECTORS FOR TRADE EFFICIENCY: BANKING AND INSURANCE

Finance and insurance issues in relation to trade efficiency

Report prepared by the UNCTAD secretariat on the basis of a study by a consultant*

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EXECUTIVE SUMMARY

(i) The availability of modern trade-related finance, payment and risk management products is a critical element in the expansion of international trade within the developing world. This paper evaluates the market for trade-related financial services and identifies potential opportunities for Trade Points to improve their clients' access to modern finance and insurance products.

(ii) Section I reviews policy considerations for Governments seeking to improve the domestic environment for trade finance and insurance providers. The discussion focuses on three specific policy areas that have a significant impact on trade efficiency in financial services, including:

- The effect of regulatory barriers to foreign financial services firms.

- The need to harmonize finance-related trade laws and regulations in order to improve the provision of crossborder financial services.

- The impact of poorly designed or administered foreign exchange controls on the utilization of modern financing and risk management techniques.

(iii) Section II presents several approaches through which the Trade Points can facilitate the distribution of trade-related financial products. The primary recommendation concerns the development of a financial services referral function within each Trade Point. The proposed advisory function would be supported by a comprehensive computer database which catalogues the capabilities of relevant financial service providers.

(iv) Section III reviews the major financing, payment and risk management mechanisms currently utilized in international trade. UNCTAD consultants have identified several opportunities to introduce or more effectively deliver key financial products through the Trade Points. Each of these opportunities is summarized along with guidelines and implementation considerations for the Trade Points.

(v) In section IV the potential role of the Trade Points in investment promotion, both inward and external, is evaluated. Details are presented concerning a new effort, led by the Multilateral Investment Guarantee Agency, to link investment promotion organizations via a specialized communications network.

(vi) The benefits to Trade Point clients of incorporating modern trade finance, payment and risk management instruments into the Trade Point service offerings include: (1) reduced financing costs, (2) more rapid payments, (3) mitigation of financial and credit risks, and (4) the ability to compete more effectively in world markets by offering more favourable terms to their customers.

INTRODUCTION

1. One of the chief impediments to increased international trade is inadequate access to competitively-priced trade finance and insurance products. This problem is particularly acute for small and medium-sized enterprises (SMEs) in developing and transitional economies. However, SME managers in the United States and other industrialized countries also cite the unavailability of trade finance and inefficiencies in the provision of financial services as key obstacles to further trade development.

2. Trade inefficiency in financial services can have a significant impact on the ability of SMEs to participate in international trade or to compete effectively with exporters from other countries. For example, in many markets the ability to offer extended payment terms to customers is a key factor in the buying decision. Also, inadequate payment and clearing mechanisms can prolong the payment cycle and increase the capital requirements associated with a given trade transaction. Smaller exporters which must finance foreign trade transactions through internal resources, due to the lack of available trade finance, will be less able to price their products competitively or fund future export growth.

3. There are a number of factors that contribute to supply constraints or ineffective service delivery in the financial services market, especially within developing and transitional economies. These include:

- General unavailability of financial capital or insurance capacity.
- High cost of service delivery, commonly the result of inadequacies in telecommunication systems, information on trading counterparties (e.g., credit data) and other elements of the financial market infrastructure.
- Regulatory constraints (e.g., exchange controls) or State monopolies of certain financial products.
- Lack of access to necessary financial market expertise and information system technology.

4. Trade-related finance and insurance can be viewed as a "tool-box" of financing and risk management techniques, each designed to perform a specific task within a transaction. By distributing or facilitating access to the broad spectrum of trade finance and insurance products, the Trade Points can ensure that their clients have the financial tools required to compete effectively in the international market-place.

5. This report examines potential opportunities to increase efficiency in the provision of trade-related financial services, focusing at two levels:

- Section I discusses policy initiatives which Governments can undertake to remove regulatory barriers, develop their financial sector infrastructure and better integrate their financial markets with those of their trading partners.

- Section II discusses mechanisms through which the Trade Points can better inform their trading clients about available finance and insurance alternatives, and facilitate the provision of financial products through the Trade Points. Section III reviews trade finance, payment and risk management techniques in common use today. This analysis mainly considers private sector alternatives, although certain programmes offered by State-run and multilateral agencies are also addressed. This section also presents summary details of several opportunities to introduce or more effectively deliver certain products through the Trade Points. These include products that are otherwise unavailable or inefficiently delivered in many developing and transitional economies.

6. A separate analysis in section IV reviews potential mechanisms through which the Trade Points can facilitate foreign direct investment.

I. THE ROLE OF GOVERNMENT IN PROMOTING TRADE EFFICIENCY IN FINANCIAL SERVICES

A. Background

7. At several levels, Governments have a significant impact, both direct and indirect, on the availability and quality of trade-related financial services. This influence extends from the influence of monetary policies on access to credit through the effect of educational programmes on the capabilities of indigenous financial professionals. This analysis will focus on three particular policy areas that directly affect the provision of trade-related finance and insurance products:

- Regulation of financial institutions, particularly barriers to entry imposed on foreign financial services providers.

- Integration of international standards and agreements into the domestic legal infrastructure.

- Foreign exchange restrictions and the impact of poorly designed or administered control procedures.

8. The implications of unduly restrictive policies on trade efficiency are evaluated as well as the beneficial effects of free trade in financial services. The general conclusion is that the development of a free market for financial services will facilitate increased international trade in goods and services, through improvements in the products and levels of service provided by the trade finance community.

B. Regulation of trade-related financial activities

9. In most countries the banking and insurance industries have traditionally been heavily regulated by government. Due to the critical role that financial institutions play in a nation's economy, regulation and supervision of these institutions is a key aspect of public policy. Many countries that are seeking to protect emerging domestic institutions or maintain strong control over their financial industry have imposed restrictions on the local

activities of foreign financial institutions. These controls over trade-related financial services have taken many forms, including:

- Limitations or outright bans on subsidiaries or branches of foreign financial institutions, including insurers. In most of these cases, financial institutions are only allowed to maintain representative offices, which cannot directly engage in financial transactions. For example, Governments in several transitional economies have restricted the number of foreign bank branches and subsidiaries in order to protect their fledgling banking industries.

- Prohibitions on foreign banks or insurers doing business with locally-owned companies. This policy has cut off many otherwise creditworthy companies from access to the international financial markets.

- Requirements for traders to insure overseas shipments with an indigenous insurance company.

10. Concerning the latter issue, the International Union of Marine Insurance has identified over 60 countries imposing restrictive measures affecting the freedom of transport insurance. These include: (1) restrictions on indigenous exporters or importers insuring overseas shipments, (2) prohibition of exports on an f.o.b. basis or imports on a c.i.f basis, and (3) special taxes and currency restrictions affecting premium payments (AIMU, 1992). Insurance brokers estimate that marine rates in some of these countries are as much as 20 per cent above prevailing rates in the international insurance market, which is keenly competitive.

11. Governments in many developing and transitional economies have realized the limits of these policies. The negative consequences include:

- Limitations on access to private debt markets overseas, particularly where sovereign debt capacity has been exhausted.

- Retarded development of the indigenous financial industry due to the absence of regional or international competition.

- Reduced ability of indigenous exporters to compete internationally due to financial constraints.

12. As a result, many countries are now beginning to open their financial markets to international competition. For example, China has recently permitted several foreign insurance companies to establish local subsidiaries and sell policies to Chinese insureds. Egypt has relaxed regulations restricting foreign banks from providing services to Egyptian companies. Also, many of the transitional economies in Eastern Europe, such as Hungary and Poland, have allowed foreign investment in privatized insurers and in new insurance ventures. A more detailed analysis of existing regulatory obstacles in selected countries is currently being planned by the Special Programme for Trade Efficiency (SPTE).

13. Over the last decade, there has been a strong trend towards the globalization of financial services providers. This suggests a growing acceptance that many trade-related financial products are most efficiently provided by transnational financial institutions. This is particularly true in the case of credit insurance, where the liberalization of financial services regulations in the European Union (EU) is creating greater trade efficiency. Until the late 1980s credit insurers were either government-sponsored schemes (for export insurance only) or private insurers restricted to underwriting in their home market and perhaps one or two neighbouring countries. This was not an effective industry structure owing to the following factors:

- Underwriting volumes and results were very sensitive to local economic conditions, with limited opportunity for geographic diversification.

- Credit underwriters were often distant from the markets they analysed, with little local support in the buyer's country.

- The limited size of the individual national markets made it difficult to achieve the scale economies required to support needed investments in computer and telecommunications technology.

14. The European Commission, recognizing the unique economic characteristics of credit insurance, formulated a separate directive as part of the 1992 Single Market reforms which effectively allowed a credit insurer domiciled in a member State to offer credit insurance throughout the EU. The European credit insurance market is at present forming into smaller groups of well-capitalized regional insurers. With operations in several countries, they are now better able to monitor the solvency of foreign buyers. Leveraging upon their increased capacity and market knowledge, they are also developing underwriting operations in many underserved foreign markets, such as the United States. In addition, as stronger private market insurers emerge, Governments are reducing their expenditures on the State-sponsored export credit insurance programmes or privatizing them outright, as was the case in the United Kingdom.

15. At the time this report was prepared, the financial services negotiations within the latest GATT round were not fully completed. Many of the initiatives being discussed in this context would significantly reduce the barriers to free trade in financial services and improve trade efficiency in the provision of finance and insurance products.

Guidelines

16. Government policy-making in the area of financial services regulation should, at the very least, consider the unique structural aspects of the market for trade-related financial services. Market access restrictions should be eliminated for financial products that cannot be effectively delivered by a solely domestic provider, such as credit insurance. Policy makers should also evaluate the indirect impact of protectionist restrictions, particularly on the competitiveness of local exporters.

17. Trade Points should also evaluate the new opportunities arising from the GATT Uruguay Round of multilateral trade negotiations, once a final agreement on the financial services component has been successfully concluded.

C. Harmonization of trade-related financial laws with international standards

18. Although there have been many multilateral efforts to harmonize laws and regulations affecting international financial transactions and procedures, significant variations continue to persist from country to country. These inconsistencies and the legal uncertainties they give rise to have proven to be a major impediment to the broader use of modern financing and payment methods, particularly in the developing world. The rules, Incoterms and uniform customs and practice developed by the International Chamber of Commerce have helped to standardize many procedures and contract terminology relating to traditional finance and payment techniques, such as collections and documentary credits. Efforts are also being made to develop a legal framework to accommodate paperless transactions, particularly title documents such as bills of lading. However, many of these recent efforts are proceeding very slowly.

19. An illustration of the problem is the Convention on International Factoring, which was approved at a diplomatic conference in May 1978 by delegates from 55 countries. Work on the Convention had begun 15 years earlier under the auspices of the Institute for the Unification of Private International Law (UNIDROIT). The Convention addresses the assignment of current and future crossborder receivables under a factoring or invoice discounting contract and the transfer of the exporter's rights under the contract of sale, among other issues. Unfortunately, only France and Italy have ratified the Convention to date, although the United States and Hungary are expected to vote on this issue in the near future.

20. In the area of insurance, a controversy continues over the rules concerning shipowners' liabilities with respect to cargo that is lost or damaged while on board. Issues surrounding the allocation of losses between the carrier and the cargo owner were initially addressed in the so-called "Hague Rules" of 1924. Updates to these rules were agreed at a conference at Visby, Sweden, and went into effect in 1977. However, at a subsequent conference held at Hamburg, Germany*, in 1978, a significant set of revisions, known as the "Hamburg Rules" was devised. However, many countries have refused to ratify this latter convention. Unfortunately, no solution to this impasse has been found in subsequent years.

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* Federal Republic of Germany at the time.

Guidelines

21. Governments should review their current laws and regulations affecting trade finance, insurance and international payments to ensure that they are consistent with accepted international practices. In particular, governments should consider ratifying and implementing the following conventions, which seek to further harmonize international trade finance law:

- The Convention on International Factoring, described above.

- The Convention on International Financial Leasing, which was agreed at the same conference as the International Factoring Convention, and has likewise not been ratified by a sufficient number of countries to bring it into force.

- The United Nations Convention on International Bills of Exchange and Promissory Notes, which addresses payment instruments used in international trade. The United States and several Latin American countries are considering ratification, which would bring this Convention into force.

Finance-related documents should also be incorporated into the national aligned systems, where relevant.

D. Foreign exchange controls

22. Many developing nations utilize exchange controls in order to manage more closely their country's foreign exchange reserves, which are frequently a constrained resource. Trade-related restrictions typically require that exporters repatriate and exchange into local currency all or a portion of their foreign exchange earnings from overseas sales. Other restrictions include limitations on the length of payment terms for imports or exports. These typically extend to prepayments for imports as well, with a maximum period stipulated between payment and the physical importation of goods. Commercial banks, customs authorities or central/foreign trade banks are normally responsible for administering exchange control procedures.

23. Many exchange control regulations currently in effect predate modern trade finance and payment procedures and thus make the use of more efficient mechanisms unduly complex or impractical. For example, some countries still mandate the use of documentary credits for export transactions. In many cases minimum value thresholds have not been updated and thus have been effectively reduced by inflation.

Guidelines

24. Governments should evaluate carefully existing exchange control regulations to ensure that they do not inhibit the use of current financing and payment techniques. In particular, control procedures that address non-bank providers of export finance, such as factors and invoice discounters, should be developed, as appropriate. Exporters should be allowed to use a

portion of foreign exchange earnings to purchase modern financial products (e.g., credit insurance) which enhance their competitiveness but are not available locally.

II. THE ROLE OF TRADE POINTS IN INCREASING THE EFFICIENCY AND AVAILABILITY OF TRADE-RELATED FINANCIAL SERVICES

A. Overview and policy considerations

25. The Trade Point Programme offers several unique opportunities to channel modern trade finance and insurance products into many traditionally underserved markets. The development of the Trade Point Network can have a catalytic effect on the provision of trade-related financial services, particularly to SMEs using the Trade Points. Successful Trade Points in developing or transitional economies will become the locus for a significant volume of trade activity. The achievement of sufficient transaction volumes, combined with the telecommunications and information-gathering capabilities envisaged for the Trade Points, will lower service delivery costs. This will make it feasible for domestic and foreign providers to offer a wider array of financial products to Trade Point clients.

26. There are three major avenues though which Trade Points can facilitate more efficient access to trade-related finance and insurance products. They are as follows:

(1) **Developing a financial services referral capability** within each Trade Point, supported by a comprehensive database of domestic and foreign financial service providers. A more detailed description of this proposed referral capability is presented in section II.B below.

(2) **Recruiting specific financial service providers** into the Local Trade Efficiency Associations (hereafter referred to as "LTEAs"), accompanied by a physical or "virtual" presence in the relevant Trade Points. These institutions should be encouraged to develop or adapt finance and insurance products that address the needs of the Trade Point clientele (particularly SMEs). They should also exert leverage upon the communications and information resources of the Trade Point Network. This relationship would ideally be on a non-exclusive basis or with exclusivity restricted to specific co-developed products.

(3) **Acting as an agent or broker**, on a non-exclusive basis, for domestic or foreign financial institutions that offer products or services not easily obtainable in the local financial markets. There are a number of international financial services providers, particularly in the areas of foreign buyer credit information, factoring services and credit insurance, who have an interest in expanding their market coverage but lack the necessary local distribution channels. This is particularly true in those developing countries that do not offer the market potential necessary to justify the establishment of a local subsidiary. The telecommunications capabilities and transaction flows within the Trade Points would make it feasible in many instances for the Association or a member company to establish such an agency/broker capability.

Specialized services with limited demand, such as forfaiting or leasing, may be more appropriately facilitated through the aforementioned referral service.

27. The balance of this section discusses the development of a financial services referral service. Section III reviews the various categories of trade-related financial services products and describes how they might be enhanced and distributed through the Trade Point Network.

B. Considerations for a financial services referral service

28. A common problem faced by exporters involves selecting the appropriate mix of trade finance and insurance products that most cost-effectively addresses their international trade requirements. Smaller exporters frequently do not have the requisite in-house expertise and require external advice. In many cases their banks do not have this expertise either or else specialize in particular trade finance products, which potentially compromises the independence of their advice.

1. Guidelines

29. To support export clients effectively, particularly SMEs, the Trade Points should be able to provide comprehensive information on available finance, payment and risk management alternatives. This financial advisory function would ideally be staffed by a trained adviser who can analyse the client's export business and recommend appropriate financing and insurance alternatives. The advisory function should be supported by an extensive database addressing the capabilities of available financial services providers.

2. Implementation considerations

30. The Trade Point financial advisers can either be seconded from participating financial institutions or recruited from the local financial community. Training programmes, which provide an overview of the various financing, payment and risk management techniques in common use, can also be utilized to ensure that the advisers are working from a common base of knowledge. A key issue for the LTEAs to consider is how to maintain the independence of the Trade Point financial advisory function. Although financial institutions selected to participate in the LTEA should be recommended in those situations where they can provide the requisite capabilities, the advisory function should also have the flexibility to recommend alternatives, as appropriate. This is particularly important when the most effective solution for the Trade Point client is not available from a LTEA member. The database described below would support the identification of the most appropriate finance and insurance mechanisms. The ability to provide independent financial advice can be a key selling point in marketing Trade Point services.

31. The computerized database supporting the financial advisory function should contain detailed information on qualified financial service providers. For example, information regarding commercial banks should include:

- Name, size and domicile of the institution.
- Location of institution and overseas branches or subsidiaries that provide trade-related services, including contact information.
- Types of exporters served (e.g., pre-exporter, new-to-export, new-to-market, and old-to-market).
- Geographical markets where the institution has had risk exposures or has provided services (particularly where the institution has specialist capabilities).
- Industries for which the institution has provided services (particularly areas of specialization).
- Types of finance, payment and risk management products which the institution has experience with or prefers.
- Preferred client size, or minimum standard.
- Preferred transaction size and tenor, or minimum standard.
- Experience with government or multilateral agency guarantee or insurance programmes.
- Special services targeted to SMEs.
- Special Trade Point-related programmes or involvement in a LTEA.
- Credit information services.
- Other services available.
- Other relevant information.

The database should also be capable of cataloguing comments from the Trade Points concerning their past experience with a given institution.

32. The initial priority should be to develop a database for providers of financing, payment services, credit insurance and credit information. Cargo insurance is normally sold through independent brokers who have already developed their own internal databases of insurers.

33. A possible model for this database has been developed by the Bankers' Association for Foreign Trade (BAFT), which is an multinational trade association based in Washington, D.C. The BAFT database, which contains most of the information described above for over 200 international banks, is used to support the Association's Access To Export Capital (AXCAP) Programme. AXCAP is a referral service, established this year by BAFT, for United States exporters seeking trade-related financial services. The development of the referral service and database was partially financed by USAID and the United States Department of Commerce.

34. The AXCAP service has already been extensively utilized, particularly by United States-based SMEs, which have historically had difficulty obtaining adequate trade finance services within the American banking system. BAFT reports that they have provided advice to several hundred exporters in the first two months of the programme's operation. A similar level of demand can be expected in many developing countries as well.

35. BAFT management has indicated informally that they would be willing to discuss future collaboration with UNCTAD to expand the database further and make it available to the Trade Point Network.

36. The Bangkok Trade Point Development Centre is also working with ESCAP countries to develop a finance referral capability.

37. The next section addresses specific products which can be more effectively distributed through the Trade Point Network.

III. REVIEW OF TRADE-RELATED FINANCIAL PRODUCTS AND DISTRIBUTION ALTERNATIVES

A. Overview

38. This section reviews current developments in the market for trade-related financial services. It also discusses specific opportunities for the Trade Point Network or individual LTEAs to facilitate increased access and more efficient delivery of these products to their clients. For purposes of this analysis, trade-related financial services have been grouped into the following six categories, although some products cross more than one category:

- Credit and related information on trading counterparties.
- Financing services, both with and without credit intermediation.
- Documentary credit/collections/payments services.
- Credit insurance products.
- Non-credit financial risk management services.
- Cargo/marine insurance.

39. The analysis of each product category includes guidelines for Trade Point management. Further details are presented for several specific product distribution opportunities identified in the research phase of this study. These should be considered for a pilot implementation programme involving selected Trade Points. The evaluation includes an assessment of implementation considerations, including costs, "user friendliness", portability, infrastructure requirements and security, as appropriate.

40. Within the above context, the analysis also addresses, where appropriate, the following issues:

- Trade finance and insurance problems facing SMEs.
- Opportunities to utilize technology-based solutions to promote greater trade efficiency in the provision of financial services.
- The potential role of multinational financial institutions in supporting the Trade Point network with technology, finance and expertise.
- Opportunities to make better use of existing national and multilateral trade finance, guarantee and insurance programmes, particularly in support of SMEs

B. Credit and related information on trading counterparties

41. The availability of accurate and objective information regarding the creditworthiness of firms in developing countries and countries in transition is a major requirement for increased international trade. Currently, such information is difficult and expensive to obtain and disseminate. As a result, firms exporting to or among developing economies have traditionally had to rely on costly external guarantees, such as letters of credit (L/Cs), rather than trading on an open account basis. Table 1 below shows the disparity in payment terms offered by United States exporters in 1989 for shipments to various regions of the world. The significant reliance on confirmed L/Cs for exports to developing countries reflects the lack of the information needed to justify extending unsecured credit terms as well as the concern felt by many exporters over buyers' creditworthiness.

Table 1

PAYMENT TERMS UTILIZED BY UNITED STATES EXPORTERS - BY REGION OF EXPORT DESTINATION, 1989 (percentages)

Region of export destination	Open account	Sight draft	Time draft	Unconfirmed L/C	Confirmed L/C
EU	65%	16%	18%	0%	1%
Other Europe	52	11	9	6	22
Latin America	3	9	11	1	76
Africa	-0-	-0-	-0-	-0-	-0-
Middle East	6	10	15	-0-	69
Asian LDCs	10	15	12	14	49

Source: World Bank Report (Schilling, 1992).

42. Credit information is currently available from two major sources:

- Banks obtain buyer credit information for their clients from financial institutions in the buyer's country with whom they have a correspondent relationship. This has been a fairly unstructured service, usually provided as an accommodation for clients rather than a major fee-earning service.

- Credit reporting agencies sell information which they collect on companies in their market. Financial information on a given company is obtained through questionnaires directed to the company management, payments information collected from other firms doing business with the target company as well as regulatory filings and other public disclosures as provided for under local law. In some countries this information is available from on-line databases, but most providers of credit information fax written reports to their clients.

43. The provision of credit information in industrialized economies is dominated by a few companies with extensive international networks. Dun & Bradstreet is the industry leader in terms of overall volume. Other major firms include TRW, Intrum Justitia and Graydon International. The latter company is owned by a consortium of European credit insurers. Most countries have at least two indigenous credit reporting agencies, except in parts of Africa, Eastern Europe and the former Soviet Union. However, the actual level of market coverage varies greatly from country to country. There are also a number of banks and private companies that provide analyses of payment conditions in various developing countries and countries in transition. These services assist exporters and financiers in assessing the political risks of non-payment.

1. Guidelines

44. Trade Points should be able to facilitate access to foreign credit information, either by bringing a member company of a credit reporting network into the LTEA or by acting as a distributor for overseas credit reporting agencies.

2. Implementation considerations

45. Several representative credit reporting agencies have been interviewed as part of this initial study. At least one international network sells credit reports at a discount to a trade association of credit managers, which then sells them at a small mark-up to association members. This particular company is also able to transmit reports via e-mail. A similar arrangement for the Trade Point Network should be evaluated, as the Trade Points offer significant distribution potential as well as the requisite telecommunications capabilities. It would be advantageous for interested LTEAs to negotiate as a group with information providers, in order to extract the maximum leverage from their combined distribution capabilities.

46. The resale of externally-sourced credit information would be relatively straightforward, assuming that the participating Trade Points have e-mail access. Little additional investment is required except for the development of a local marketing and delivery capability.

47. The collection and distribution of credit-related information on local buyers through the Trade Point Network may also be a viable option for certain Trade Points. The development of a credit reporting function could be a commercial opportunity for the Trade Point or a LTEA member company in those countries where this capability is lacking. Such a capability would also contribute to the development of the local trading and financial market infrastructure. However, this is a much more complex undertaking and would involve a significantly greater investment than the resale alternative described above. A Trade Point entering this business would need to hire and train a staff (at least 2-3 individuals) to gather information on local companies for overseas clients as well as develop supporting information systems and telecommunications capabilities. The feasibility of this concept depends upon the anticipated level of foreign demand as well as the capabilities and competitiveness of existing local providers. Therefore proposals to establish an internal credit reporting capability should be evaluated by individual LTEAs on a case-by-case basis.

C. Financing products

48. Trade finance has evolved considerably since the Renaissance era, when bankers in Italian city-States such as Florence, Genoa and Venice developed the antecedents of traditional trade finance mechanisms, such as letters of credit and acceptance financing. Although the modern variants of these instruments are still utilized in many trade finance transactions today, a number of other financing and risk management techniques have been developed to meet the unique requirements of certain industry sectors or to address capital shortages in developing countries. The increasing availability of modern telecommunications, computing power, risk management tools and information enables trade financiers to tailor financing transactions to the specific needs of the trading counterparties. Thus the possible combinations of funding and risk management techniques available today number in the thousands.

49. This analysis therefore will focus on the major trade finance mechanisms that are particularly useful in facilitating North-South as well as South-South trade. Some financing techniques involve funding only, while others, such as factoring, incorporate both financing and credit intermediation. These techniques are divided into three broad categories:

- Pre-shipment export financing.
- Short-term post-shipment export financing.
- Structured finance techniques, particularly those used in medium- and long-term export financing.

50. The analysis will also consider the role of external funding mechanisms, such as rediscount facilities and secondary markets. Considerations for

financing small and micro-enterprises are also discussed. This evaluation focuses largely on private sector financial services providers; however, there are also approximately 90 national export credit agencies (ECAs) in the world which provide various types of pre- and post-shipment finance (including direct loans). Many also offer guarantees and credit insurance. Although certain of these programmes are noted below, a comprehensive review of the specific financing facilities offered by each country is outside the scope of this analysis. However, Trade Points should be aware of the programmes offered by their national ECA.

51. Several specific opportunities to utilize the Trade Point Network in facilitating the delivery of modern trade finance instruments, particularly in developing and transitional economies, are identified.

1. Pre-shipment export financing

52. This type of financing provides the working capital required to produce or inventory goods for export. Some enterprises can generate this working capital from internal resources or have a bank overdraft facility for this purpose. For firms that require further external resources, several financing mechanisms have been developed. Usually backed by various forms of collateral or guarantees, they include but are not limited to the following:

- Loans secured by a L/C from the buyer and a pledge of the exporter's assets. This can be very expensive for SMEs, for frequently the assets which must be pledged will greatly exceed the loan amount, even with the L/C as additional collateral.

- Many countries operate programmes to provide pre-export finance guarantees so as to facilitate borrowing by providing a collateral substitute. These programmes exist in several developing countries with more advanced financial systems, such as the Republic of Korea, the Philippines, India and Indonesia.

- Some countries have established specific programmes to provide hard currency funds required to purchase foreign-sourced production inputs. The World Bank has assisted in the establishment of several revolving funds during the 1980s. Facilities developed in countries such as Mexico, Costa Rica and Zimbabwe offer short-term pre-shipment finance in hard currency.

- There are a number of specialized finance houses and trading companies who offer pre-shipment finance but actually take a lien on (or title to) the production inputs purchased, in lieu of other collateral. Where title is taken, the exporter in effect acts as an agent for the financier until the goods are shipped. Frequently a separate post-shipment financing mechanism is then utilized and the financier is repaid for the inputs plus a mark-up. This technique is used in many countries for products ranging from agricultural commodities to personal computers.

- In many countries indirect exporters play a major role in the export economy. These enterprises can include component producers for firms that export an assembled final product or producers of finished goods which are later exported by trading companies. As many of these firms are SMEs, they also frequently require pre-shipment financing but may not have access to the facilities described previously. Several countries, such as Mexico and Malaysia, have therefore developed domestic letter of credit systems which facilitate the use of a technique known as back-to-back letters of credit. Under this mechanism, a direct exporter issues domestic or import (for foreign-sourced inputs) L/Cs to its suppliers, backed by a confirmed L/C from the ultimate buyer. The domestic indirect exporter can then obtain a pre-shipment loan backed by the domestic L/C.

53. A key obstacle facing SMEs in obtaining access to these facilities is gaining the trust of the lender or guarantor involved. Moral hazards aside, many SMEs seeking finance have not yet established a track record for delivering export orders in accordance with the contract terms. Although these financing transactions are self-liquidating, the lack of adequate information or trust increases the level of perceived risk to the financial intermediary. The Trade Points, in their role as export counsellors to the SME, can help to increase the comfort level of the financial institutions involved.

(a) Guidelines

54. Trade Points should be positioned to advise clients on the pre-shipment financing facilities available in their country or region. In addition, Trade Points can develop support programmes to assist exporters in structuring and delivering on their contractual commitments, so that participating financial institutions can offer pre-shipment finance without assuming undue risks.

55. The individual LTEAs should also work with national and multilateral agencies to draw up finance and guarantee programmes, such as pre-shipment finance guarantees or domestic letters of credit, which are appropriate to their clients' needs and the capabilities of the domestic financial system. These types of pre-shipment financial support have been implemented successfully in developing countries and economies in transition. However, most have been implemented by government institutions, which have the necessary financial resources, access to external finance and ability to modify the legal infrastructure.

(b) Implementation considerations

56. Several financial intermediaries which offer specialized types of pre-shipment financing have been identified in the initial research for this report. Also, the World Bank has been extensively involved in establishing pre-export finance facilities and domestic L/C systems on a national basis.

2. Short-term post-shipment export financing

57. Short-term post-shipment financing generally involves transactions with payment terms of 180 days or less although certain financing techniques can be applied to trade on more extended terms. These mechanisms usually involve discounting invoices or bills of exchange that have been guaranteed by a bank (acceptances).

58. However, many commercial banks in developing countries lack the capital resources for adequately backing their letters of credit or acceptances. In these cases third party guarantees, such as credit insurance or a L/C confirmation from a well-capitalized bank, are required to support a financing transaction. Many countries, particularly in Africa, do not have an adequate banking system to support any of these techniques. In these cases, alternative mechanisms such as barter and countertrade must be employed. These are described later in this section.

3. Acceptance financing or bill discounting

59. Acceptance financing (or bill discounting) is one of the most frequently utilized types of trade finance. This technique involves the creation of a banker's acceptance, which is a term bill of exchange (or usance bill) drawn by the importer on a bank (frequently under a L/C), which has been accepted as the bank's commitment to pay the exporter a stated sum at a specified future date. The exporter can then discount the acceptance with his bank to obtain funds. Most commercial banks already offer some form of acceptance financing or bill discounting facility to their clients.

60. Although these transactions are self-liquidating, a major problem which many banks encounter is the lack of available capital, particularly if there is no secondary acceptance market where banks can resell these instruments to raise cash. Many central banks operate rediscounting facilities to purchase acceptances and inject liquidity into the banking system.

61. There is also a growing number of regional finance programmes that are designed to provide loans and rediscounting facilities in support of international trade. Perhaps the most successful programme is BLADEX, which is based in Panama and provides financing and rediscount facilities throughout Latin America. Other regional programmes include the Inter-Arab Trade Facility, which is operated by the Arab Monetary Fund, and several trade financing mechanisms operated by the Islamic Development Bank (IDB). The IDB facilities provide export and import financing in accordance with Islamic banking principles.

62. A private sector investment fund is also being established in London to provide short- and medium-term funding (up to three years) for trade finance transactions arranged by other financial institutions.

Guidelines

63. The individual LTEAs should include commercial banks capable of offering post-shipment trade finance. These institutions should have access to national or regional refinancing facilities to ensure that adequate liquidity

is available to finance routine transactions facilitated by the Trade Points. The LTEAs should also participate in local and regional efforts to develop new financing and rediscounting programmes, particularly in support of SMEs.

4. Factoring and invoice discounting

64. Factoring has emerged as an effective method of financing and credit risk intermediation for exporters in developing countries and economies in transition. Modern factoring first developed in the United States as a means of financing domestic trade, particularly in the textile and garment industries. Since the 1960s the factoring industry has expanded internationally, with a fourfold growth in factoring volume in the decade from 1982 to 1992. Today there are over 750 factors in more than 40 countries, accounting for a total volume of $264 billion, of which 5.6 per cent, or $15 billion, represents crossborder transactions.

65. The term factoring actually encompasses a package of services that can be accessed individually or in combination. These typically include:

- Evaluation of buyer creditworthiness;
- Credit intermediation, with up to 100 per cent of the risks assumed by the factor;
- Collection services, including follow-up on past-due receivables;
- Accounts receivable ledger administration;
- Financing through cash advances against accounts receivable.

66. The latter service, when utilized alone, is often referred to as invoice discounting or confidential receivables finance. Banks will also provide invoice discounting services, particularly when the overseas credit risk is mitigated through an export credit insurance policy.

67. A major advantage of factoring is that it allows the exporter to quote open account payment terms for buyers which have been approved by the factoring house. In many industrialized countries trade is normally conducted under open account terms, as is illustrated in table 1 for trade between the United States and the European Union. In order to compete effectively, a firm exporting to these countries must either assume the credit risk itself or lay off the risk through a credit insurer or factoring house. Firms trading with developing countries can also gain an element of competitive advantage by offering similar terms, thus saving the importer the expense and administrative effort of opening an L/C.

68. The international factoring industry is dominated by a small number of firms and factoring networks, principally Factors Chain International (FCI), International Factors Group, Heller International and Lombard NatWest Commercial Services. For example, FCI consists of approximately 100 independent factoring houses in nearly 40 countries, representing about 50 per cent of total industry volume.

69. Banks have recognized the special role of factoring and have been active in acquiring factors and consolidating the industry within the industrialized economies. For example, in the United States and the United Kingdom virtually all the major factoring houses are now subsidiaries of commercial banks. Also, over half of the FCI member companies in developing countries and economies in transition are either commercial banks or have banks among their major shareholders.

70. In a factoring relationship, the exporter typically assigns his trade receivable to a local factor (known as an export factor), who advances funds against invoices presented. The export factor reassigns the receivables to a factor in the buyer's country (an import factor), who assumes the credit risk and collection responsibilities. The import factor collects the receivable and remits the funds to the export factor, less his fee.

71. The cost of full export factoring services usually comprises two elements: (1) the financing cost, which is normally the factor's cost of funds plus a margin, and (2) a service charge covering the credit intermediation and collection services. For example, Lombard NatWest advertises service charges in the 1-3 per cent range, depending on the buyer's location.

72. Factoring is a particularly useful source of finance for SMEs that have some experience in exporting and generate a significant level of export turnover. For example, Lombard NatWest considers an annual export (or import) turnover of at least US$ 750,000 as a minimum threshold. Factors in developing countries frequently have lower requirements. Factors generally prefer not to handle one-off transactions.

73. The factoring industry has been particularly active in incorporating telecommunications technology and EDI into their operations. Factors Chain International (FCI) has had an EDI system (FACT) in place for several years to facilitate inter-factor communications. They have also formed a working group (EWG), under WEEB-MD4 of the UN/ECE's Working Party 4, to develop specialized messaging formats for the factoring industry. FCI is now developing a new system using EDIFACT standards, known as EDIFACToring, which is designed to facilitate data communications among factors, sellers, buyers and banks. This system is currently in the implementation phase. Lombard NatWest has also developed proprietary systems, which support EDI capabilities between the company and its clients.

(a) Guidelines

74. Trade Points should facilitate access to export factoring services for their export clients. Support for new exporters in mastering international trade procedures and building export volume will help them to achieve the thresholds required to access factoring services.

(b) Implementation considerations

75. Facilitation of factoring and invoice discounting services can be accomplished in several ways:

- Recruiting an existing factor into the Trade Point, preferably one that has access to an international network of correspondents or branch offices. The Trade Points could play a significant role in supporting the dissemination of the EDI technologies being pioneered by organizations such as FCI, particularly within developing countries. This would be the simplest solution from an implementation standpoint.

- One of the financial institutions participating in the LTEA can establish a factoring capability. The financial institution should develop overseas correspondents, either by joining an existing network or by forming bilateral relationships with factors in target markets. In this way they can lay off the overseas credit risk and obtain collection services. Factoring networks such as FCI have as part of their mission the development of factors in markets not adequately served at present. Individual factors, such as Lombard NatWest, frequently accept business from overseas banks which are factoring invoices involving buyers in the EU. Also, certain multilateral agencies, such as the IFC, have provided technical assistance and capital to several factoring start-ups in developing countries and economies in transition.

- A third alternative, assuming that the development of an indigenous factor is not feasible at present, is for the Trade Points to act as brokers or agents in distributing overseas collection services. Import factors will offer collection services and bad debt protection to overseas exporters but typically will not advance funds abroad because of the exporter performance risks involved.

- Finally, banks participating in the Trade Point can offer invoice discounting services for transactions covered by an export credit insurance policy, underwritten by a local insurer or one located in the buyer's region. This is a technique commonly used by banks in the EU, where credit insurance is readily available. There are several issues to consider in setting up such a facility, including: (1) acceptance of insurer's security by the financing bank, (2) the ability of the insurer, if based overseas, to underwrite in the exporter's country, and (3) policy language which permits assignment of claims to the financing bank.

76. Requirements for the implementation of a factoring capability include: (1) adequate telecommunications, (2) software and training, which are both available, and (3) an appropriate legal infrastructure. The legal structure should allow, among other things, for the assignment of current and future receivables under a factoring contract as well as the transfer of the exporter's rights under the contract of sale. Ratification and implementation of the International Factoring Convention discussed previously would be useful.

5. Structured finance techniques

77. Trade financiers have adapted many of the securitization and financial engineering techniques first pioneered in the corporate finance industry for

use in structuring trade transactions. These are frequently used to finance trade involving developing countries or economies in transition, particularly for high-value exports and construction projects where longer repayment terms are desired. A significant amount of medium- and long-term finance is also facilitated through guarantees provided by export credit agencies in the seller's country. In addition, age-old trading techniques, such as barter and countertrade, have been updated through the use of modern risk management instruments.

78. This analysis will focus on forfaiting, countertrade and leasing, which are mechanisms commonly used today, particularly for capital goods exports. There are a variety of other techniques available, but many of them are more appropriate for situations requiring long-term project finance.

(a) Forfaiting

79. Forfaiting was extensively used in financing East-West trade during the Cold War era but is widely used today to finance exports, particularly capital equipment, to and among developing countries and economies in transition.

80. A typical transaction involves the delivery of goods by the exporter in return for bills of exchange or promissory notes from the importer. Usually these are drawn in a series with semi-annual maturities, the total number of bills/notes being dependent on the amount borrowed and the credit period. Maturities can range from 3 months to 5 years. These bills/notes are frequently guaranteed by the importer's bank or another third party, either through a "Per Aval" endorsement or a separate letter of guarantee. The exporter then discounts these bills/notes (without recourse) with the forfaitor, who will either hold them to maturity or sell them in the informal secondary market that exists for this type of security. Institutions that make a market in forfaited notes are generally located in Europe and include international banks and specialized investors.

81. Advantages of forfaiting include reasonable interest rates (usually a spread above LIBOR appropriate to the maturity structure of the transaction) and the ability to lay off political, transfer, credit and documentary risks.

(i) Guidelines

82. Trade Points should be able to refer clients to qualified forfaitors and assist client importers in obtaining the requisite guarantees. As forfaiting transactions are tailored to the specific requirements of the trading counterparties, the telecommunications capabilities of the Trade Points can be invaluable in facilitating the flow of information.

(ii) Implementation considerations

83. Representatives of several forfaiting houses have been interviewed as part of this initial study. Although many forfaitors have branch offices in developing countries, most are based in the United Kingdom and continental Europe. Consequently they are continually seeking institutions in developing countries and economies in transition which can refer business.

(b) Barter and countertrade

84. Barter and countertrade are estimated to comprise over 10 per cent of world trade today, and are particularly common in transactions involving developing countries and economies in transition. Countertrade differs from barter in that part of the transaction involves a cash payment. These transactions are usually much more complex today due to the use of various techniques to minimize the risks to one or both of the counterparties or the countertrade intermediary, if one is involved. The risks relate to the timely delivery of goods promised, quality of goods delivered, and pricing. Some of the techniques developed to facilitate barter and countertrade include:

- External performance guarantees on one or both counterparties, which can be issued by a bank or take the form of an insurance policy. For example, some Lloyd's syndicates underwrite policies covering non-delivery risks. Also, inspection agencies are frequently used to ensure that the quantity and quality of goods are consistent with the contractual agreement.

- Barter by L/C involves the exchange of L/Cs between the counterparties, with the release of funds from the sale of the bartered goods being contingent upon shipment of the primary goods.

- Escrow accounts are used to hold funds arising from the sale of bartered goods until payments are due to the primary goods exporter. The account is usually managed by a bank which acts strictly in accordance with the terms of the countertrade agreement. This mechanism is particularly useful as it can be used repeatedly over time and can be accessed by several exporters dealing with one counterparty.

85. Countertrade brokers play a very important role in finding buyers for the goods offered in the exchange and in arranging the risk management mechanisms. They are usually compensated on a commission basis.

86. New techniques to facilitate countertrade are being refined in the transitional economies of Eastern Europe and the former Soviet Union. These include:

- Buy-back transactions, in which one company exports equipment and technical assistance to another, taking products produced by the equipment as payment and selling them at a mark-up.

- Internal switch trade, where a local hard currency exporter finances cash purchases on behalf of another company, which pays the exporter with its own goods.

Guidelines

87. Trade Points should recruit qualified countertrade brokers into the LTEAs, if justified by potential trade volumes. Otherwise, the Trade Points

should be able to refer clients to qualified countertrade brokers and financial institutions which specialize in facilitating countertrade transactions.

(c) Leasing

88. Crossborder leasing is a form of financing that is increasingly utilized, particularly for equipment exports between developed countries. Although the more visible examples of crossborder leasing in developing countries or economies in transition involve high value items such as aircraft, leasing of smaller equipment is becoming more common.

89. The use of leasing can enhance an exporter's competitiveness in several ways:

- Leases provide a means of offering extended credit terms, thus helping the buyer to conserve working capital. The nature of the credit risk assumed differs from a direct sale in that the exporter or financial intermediary writing the lease retains title to the assets.

- Operating leases can be booked in most countries as off-balance-sheet liabilities, which may be useful if the importer has exhausted its borrowing capacity.

- The exporter or financial intermediary may be able to take advantage of tax incentives and accelerated depreciation provisions to increase their margins or offer a lower rental rate to the importer. This can be particularly significant if the exporter is in a higher tax regime.

90. Many countries, however, do not have well-developed leasing laws. Moreover, international tax and accounting issues can increase the complexity of the financing transaction. The issue of longer-term credit risk must also be addressed. Frequently a local bank guarantee is required to support the leasing contract.

Guidelines

91. Trade Points should determine the potential demand for lease financing services based upon the local volume of capital equipment exports. The current legal framework in the local market and potential target markets should be evaluated to determine if crossborder leasing is feasible. Local financial institutions with a leasing capability or international leasing specialists should be included in the financial services referral service.

6. Financing considerations for small and micro-enterprises

92. The availability of external financial resources can be particularly important for small and micro-enterprises, which frequently need external finance in order to purchase the domestic or foreign-sourced inputs to manufacture the export product. However, many small businesses do not have the resources or easy access to overdraft lines because of insufficient net

worth. Many countries have special small or micro-enterprise loan programmes. The experience of such programmes sponsored by USAID has shown that, given the costs of administration and monitoring, the most successful small loan programmes are not those that support specific activities, such as exporting or new product development. Instead, loan facilities that simply provide discretionary working capital to small and micro-enterprises have proved to be the most viable in the long term.

D. Documentary credit/collection/payment services

93. The application of documentary credit, collection and payment techniques is addressed concurrently in this section as financial institutions frequently utilize common information systems and telecommunications networks in delivering these services.

94. Documentary credits (also referred to as "L/Cs") are the form of credit risk intermediation most frequently offered by banks to facilitate trade transactions. The insurance-based forms of credit risk intermediation, export credit and political risk insurance, are addressed in section E. below. The collection and payment mechanisms described below can be used with either type of credit risk management technique.

95. Under the documentary credit process the issuing bank will make payment (immediately or at an agreed future date), upon the presentation of title, shipping and related documents completed in accordance with the specific terms set forth in the letter of credit. The exporter is thus insulated from buyer credit risks as the issuing bank is providing a guarantee of payment. However, many banks in developing countries and economies in transition have insufficient capital, so their perceived ability to back L/Cs is sometimes questionable. Confirmation of an L/C by a another financial institution is an additional source of security; however, many banks in industrialized countries are reluctant to assume these risks.

96. Documentary collection refers to the process of delivering title, shipping and related documents for the goods exported to the importer in exchange for a written undertaking to make payment, such as a bill of exchange or promissory note. This service is normally provided by commercial banks. The level of credit risk assumed is greater than under documentary credit terms, as no bank guarantee is involved. However, the credit risk exposure is less than under straight open account terms.

97. Payment services refers to the process of transmitting funds from the importer's bank account to that of the exporter. This is usually performed by a commercial bank and there are many potential mechanisms for effecting this transfer.

98. The documentary credit process has been described by many as expensive and cumbersome. Since the banks deal only with documents and are potentially liable if the terms of the L/C are not observed strictly, small errors or variations in the documents presented usually result in rejection by the issuing banks. SITPRO has noted that in the United Kingdom an estimated 50 per cent of documents presented under L/Cs contain errors that result in settlement delays, frequently for more than two weeks. The physical

transmittal of documents to the importing country is another source of collection problems, with documents that are misdirected or late in arriving a frequent occurrence. SITPRO has also noted that the terminology and documentation requirements stipulated in many L/Cs, particularly from developing countries, are often out-of-date or incorrectly applied, thus giving rise to further delays. However, the documentary credit is still widely used, particularly in Asia.

99. The balance of this section describes initiatives to streamline these processes through the application of modern information and telecommunications technology. Current developments in payment and clearing systems are also evaluated, including relevant SWIFT initiatives.

1. Trade banking systems

100. The banking industry is attempting to deal with the problems inherent in the documentary credit and collections processes through the application of modern information management systems and EDI. Several banks and software vendors now offer integrated trade banking systems which automate many clerical tasks. These systems also help to minimize the amount of information that must be re-keyed from one computer system to another, which is a leading cause of documentation errors.

101. These systems typically contain application modules that address the full range of trade banking services, including:

- Documentary credit issuance/advising/confirmation/negotiation.
- Export and import collections.
- Bills financing.
- Creation and administration of banker's acceptances.
- Other loans and advances.
- Reimbursements to and from correspondent banks.
- Funds transfer.

102. Many trade banking applications, such as Hong Kong Shanghai Bank's Hexagon system and Citibank's Citibanking system, now feature remote access capabilities. Exporters and importers can thus access the bank via modem to open L/Cs or review their account status. These systems also are able to interface directly with communications systems such as SWIFT, so that L/C advices can be transmitted directly to the advising bank's computer system, thus eliminating further sources of error. Security features can include data encryption and the use of private communication networks.

103. In addition, several institutions and software developers are implementing systems that utilize EDI or imaging technologies to transmit

electronic copies of collection documents. These systems facilitate timely inspection and analysis before the physical documents are presented to the importer. For example:

- Citibank is currently implementing an in-house imaging-based system that will allow it to consolidate its trade document processing functions into four regional centres around the world. These centres will handle all document examination and transaction accounting operations while the local branches facilitate the physical presentation of documents.

- Complex Systems, Inc., a New York-based trade finance software developer, has introduced a system that will allow banks (or their branches) and clients using the same software to exchange collection documents electronically. In addition, the importer can transmit the underlying logic of the document bundle stipulated under the terms of the L/C. Thus the exporter will have, in effect, a detailed checklist of the L/C requirements.

104. Although these developments will reduce settlement delays, fully paperless settlement of documentary transactions still lacks the necessary legal framework, particularly with respect to the acceptance of title documents in electronic form.

(a) Guidelines

105. Financial institutions associated with the Trade Points should consider the implementation of modern trade banking systems as a means of increasing the efficiency of service delivery and reducing transaction costs. Institutions should also review current documentary credit/collection procedures and contract terminology to ensure that they are up to date and conform to international standards.

106. UNCTAD and the Trade Point Network also should follow closely the initiative of the World Trade Centers Association (WTCA) to create a new EDI-based collection/payment/financing system to serve Trade Centre clients. This initiative, which is still in the design stage, is an attempt to re-engineer the traditional trade finance mechanisms described above. The WTCA has also indicated an interest in collaborating with UNCTAD in developing this technology.

(b) Implementation considerations

107. Trade banking systems can be purchased from certain international banks as well as specialized software vendors. A major vendor estimated that the installed cost of a minicomputer-based system ranges from US$ 120,000 to $1 million, depending upon the configuration. Many of these systems also have PC-based remote access software which can be sold or given to clients to facilitate data communication. Some systems marketed by large international banks also offer the opportunity to use the bank's international telecommunications systems to facilitate messaging with overseas correspondents. This is a useful feature if the purchasing bank is not a SWIFT member.

108. Alternatively, several international banks offer "private label" services, wherein the transaction processing and administrative tasks are handled by the servicing bank. The purchasing bank markets the service under its own name and is connected to the servicing bank's operations centre and information systems. The cost of these services is normally volume based.

2. Payment and clearing systems

109. The settlement of financial obligations arising from foreign trade can be handled by a number of methods, which are reviewed below.

110. Many payments are effected through the correspondent banking accounts of the financial institutions involved in the transaction. In the simplest case, where the importer's bank has an account with the exporter's bank, instructions are sent (usually through SWIFT) to debit the account and transfer the proceeds to the exporter's account. Frequently, intermediate correspondents are utilized where a direct relationship does not exist between the two banks. Many large international banks specialize in facilitating (clearing) such payments between foreign countries and their home markets (or payments in their home currency). For example, Chase Manhattan in Frankfurt is a major clearing bank for dollar-based payments. In addition, many of these banks, such as Citibank and American Express Bank, have internal payment handling systems which can facilitate the rapid transmission of international remittances through their branch networks. For small transactions the transmission of instructions or payment instruments still frequently takes place by airmail or courier.

111. Payments also can be made by the importer's bank though an international clearing and payments system. Many of the largest banks utilize the Clearing House Interbank System (CHIPS) system to clear dollar-based obligations among themselves. The developing world has a number of regional clearing and payment networks, including:

- Latin American Integration Association Payments and Reciprocal Credit System (ALADI). This is the only one with an automated clearing system in place.
- The Asian Clearing Union (ACU)
- The West African Clearing House (WACH)
- The Central African Clearing House (CAFCH)
- The Preferential Trade Area Clearing Arrangement (PTA) (East and West Africa)
- The Central American Clearing House (CACH)
- The Caribbean Community Multilateral Clearing Facility (CMCF).

112. Unfortunately, many of these clearing houses are not automated and suffer long settlement delays as a result of arrearages by member countries (Ritter, 1992).

113. There are a number of initiatives under way to create new specialized payment systems, particularly in Europe. Examples include:

- TIPA, which links cooperative banks.

- IBOS, which connects a group of European commercial banks.

- Eurogiro, which is a network service post office and giro banks.

- Visa International, which links ATMs across Europe.

114. New clearing and payment systems are emerging in developing countries and economies in transition as well. Examples include:

- MEGALINK, which is a consortium of 75 banks in 6 Asian countries, is developing systems to facilitate trade payments and link ATMs.

- A consortium of Russian and East European banks as well as Sao Paulo Bank have announced plans to create an ecu netting system linked through SWIFT. They are receiving support from the EBRD as well.

115. However, none of these systems is sufficiently global to serve the entire Trade Point Network, as it is currently envisaged. They represent the first steps in a process that is very likely to result in a network of regional payment systems and clearing houses. UNCTAD and the relevant LTEAs within the Trade Point Network should closely monitor or participate in these initiatives, as appropriate.

116. Further details regarding SWIFT-related developments are presented below, as this messaging system is the major communications medium for interbank data communications.

3. SWIFT developments

117. The primary means by which banks exchange transaction-related instructions internationally are via telex, fax and SWIFT (Society for Worldwide Interbank Financial Telecommunications). In addition, many international banks have implemented private phone and data networks to facilitate inter-branch communications worldwide.

118. SWIFT is the major interbank messaging system in use today. From the network's inception in 1977, SWIFT membership has grown to over 3,600 institutions in almost 100 countries. SWIFT members utilize a standard set of messaging formats, transmitted over a secure packet-switching network, to exchange transaction-related messages and information.

119. Set-up costs for new members are significant, ranging from US$ 100,000 upwards depending on the configuration and location. Variable costs, however, can be much lower than for telex or other communications modes.

120. Initially, payment messages handled by SWIFT involved instructions relating to single transactions (e.g., trade payments), which were handled through the correspondent banking accounts of the institutions involved. However, SWIFT has since extended its activities into the following areas:

- The Interbank File Transfer Service facilitates the transfer of bulk payments data, usually multiple low-value remittances as well as administrative information, which traditionally is sent by fax.

- The ECU Netting Service is used mainly by European banks to net their ecu-denominated liabilities.

- ACCORD is a confirmation matching system for foreign exchange and money market trading.

- The PREMIUM service has a message copying feature which facilitates the use of the SWIFT network in automated clearing-house applications. France is currently using SWIFT as the transfer mechanism within its national settlement system for high-value payments.

121. SWIFT is also in the pilot stages of an international financial EDI project to facilitate the direct collection of domestic and crossborder trade payments (non-L/C). This will occur through direct debit instructions issued by the seller's information system. These messages contain remittance advice information, which will be transmitted to the buyer's information systems at the time their account is debited. This approach will require all transaction participants to make modifications to their information systems. At present, it is only feasible between counterparties that have substantial trade transaction volumes. However, it is an initiative which UNCTAD and the Trade Point Network should closely monitor.

122. Another SWIFT initiative in the design stage is a mass payments facility, which is intended to facilitate crossborder payments between banks and automated clearinghouses (ACHs) as well as ACH to ACH payments. Although this initiative is in its early stages, UNCTAD and the Trade Point Network should also closely follow its development. The successful implementation of these capabilities, combined with its current ACH technologies, would present significant new opportunities to enhance payment systems in the developing world.

Guidelines

123. As the Trade Point Network is still in its early development, consideration of a proprietary payments system is premature. However, UNCTAD, the LTEAs and affiliated financial institutions should seek to participate in national and regional efforts, both public and private, to develop or enhance payment and clearing systems. In particular, they should seek to ensure that the development process for new systems addresses the following issues:

- The EDI capabilities should be designed under EDIFACT standards.

- The system design should facilitate linkages to other national and regional clearing systems. Moreover, mechanisms to finance short-term deficits by member countries should be incorporated to prevent settlement delays.

- Developments in documentary credit/collections techniques should be reflected in the system design.

124. If a significant volume of inter-Trade Point trade does materialize, more rapid payments could be facilitated, if necessary, by involving an international bank with a proprietary express payments system in the relevant Trade Points.

E. Credit insurance products

125. Credit insurance, the insuring of sellers against insolvency or default by their domestic and/or overseas buyers, is commonly utilized in Europe and Japan to protect trade transactions. It is also increasingly used in other developed and developing markets. This product is typically purchased by: (1) firms desiring to protect their domestic and export trade against credit risk, and (2) financial intermediaries who are financing domestic and international trade but wish to limit their credit risk exposure. It is one of the primary credit intermediation techniques utilized in international trade and is a frequently used alternative to documentary credits, particularly when open account payment terms are preferred.

126. This insurance is generally underwritten on a whole turnover basis, wherein all of the insured's domestic and/or overseas sales are covered in exchange for an annual premium based upon sales volume. The insurer will restrict his exposure by setting a limit on the insured receivables outstanding from a given buyer at any one time. In addition, the majority of policies issued cover only transactions involving payment terms of 180 days or less.

127. Credit insurance covers only the commercial risks in a transaction; however, in many cases an export credit policy is combined with political risk cover, which insures against certain government actions (e.g., foreign exchange controls) that may prevent the buyer from making payment.

128. The benefits of using credit insurance are that it normally allows the exporter to sell on open account terms, thus avoiding the costs and complexity associated with documentary credits. Many banks will accept a credit insurance policy as security for trade finance as long as the policy is issued by a well-capitalized insurer.

129. As noted previously, the credit insurance industry, particularly in the industrialized countries, is undergoing a restructuring as a result of regulatory liberalization and the competitive opportunities offered by modern communications technologies. In developing countries most credit insurers are State-controlled companies. However, several new private and multilateral credit insurers are emerging in the developing world. These include:

- The Islamic Corporation for the Insurance of Investment and Export Credit, which is being formed by the Islamic Development Bank to insure trade and investment between Muslim countries in accordance with Islamic Law.

- Global Trade Insurance, a subsidiary of the People's Insurance Company of Singapore, which is the first private market credit insurance underwriter in Asia. This company insures Asian trade with Europe and the Americas as well as exports from these markets into south-east Asia.

- The new African Export-Import Bank, which is exploring the development of a credit insurance subsidiary.

130. Credit insurance is normally distributed through direct sales by the credit insurers or through specialist brokers. However, in many developing countries the distribution of private market credit insurance is conducted through general insurance brokers or trade banks. Service levels, particularly to SMEs, are frequently uneven due to the lack of product expertise in the local market.

1. Guidelines

131. The Trade Points should facilitate the availability of credit insurance to their clients through the development of a brokerage or underwriting capability within the Trade Point or a LTEA member company.

132. Export credit insurance services should be targeted at experienced exporters who sell on a frequent basis to a fairly regular group of overseas customers and who wish to switch from documentary credits to open account terms of payment without incurring significant additional credit risk. It is also useful when selling to markets, such as Western Europe, where L/Cs are not commonly demanded and their use may influence the purchase decision.

2. Implementation considerations

133. Discussions have been held with several private market credit insurers concerning possible distribution of their products through the Trade Point Network. One insurer in particular has extensive experience in working with banks and insurers in developing countries to distribute or co-underwrite credit insurance. Due to regulatory and financial considerations, it will be necessary to address the marketing of credit insurance on a country-by-country basis.

134. There are several distribution approaches which the Trade Points can consider. These include:

- Recruit a qualified credit insurance broker or a local State-owned/private credit insurance underwriter into the LTEA. If a local underwriter is involved, the Trade Point should seek to develop new-to-export policies for SMEs. These policies should also involve intensive export counselling services by the Trade Point to mitigate the additional risks to the insurer stemming from

exporter inexperience. New-to-export policies are used in many developed countries to assist SMEs in trading abroad on open account terms without assuming excessive credit risks.

- The Local Trade Efficiency Association could act as an agent/broker for one or more credit insurers. The telecommunications capabilities of the Trade Point would be very useful for exchanging administrative information with a foreign insurer and facilitating the rapid approval of new buyers under the policy. If the insurer is domiciled overseas, there may be regulatory issues that have to be addressed before the insurer can offer a policy to a domestic exporter. Brokerage fees for credit insurance can range up to 15 per cent of premium paid.

- It is also possible for a qualified insurer affiliated with the Trade Point to develop a credit insurance capability without a massive investment in personnel and systems. One particular European credit insurer has been establishing co-underwriting programmes with property/casualty insurers in several developing countries. Under this mechanism the indigenous insurer, which could be a licensed insurance subsidiary of a commercial bank, markets the product and issues a policy in accordance with local regulations. The European insurer conducts the underwriting analysis and must approve all foreign buyers (usually in OECD countries) which are to be covered under a given policy. The indigenous insurer also automatically reinsures up to 90 per cent of the risks assumed by the European insurer and handles local marketing and administration. Thus the local insurer can gradually gain the expertise to assume additional underwriting responsibilities. There are also a number of regulatory and foreign exchange issues which must be addressed in implementing this type of programme, particularly in licensing and reinsurance.

135. The above approaches permit the Trade Point to offer a broader range of credit risk intermediation products as an alternative to documentary credits.

F. Non-credit financial risk management services

136. This section evaluates financial risk management techniques in use today, except for those which directly address credit risk and the insurance of goods while in transit to the importer. Credit risk management products offered by banks are discussed in section D above while credit insurance products are evaluated in section E. Cargo/marine insurance issues are addressed in section G.

137. The use of modern financial risk management techniques is quite commonplace in private sector companies within industrialized economies and is utilized increasingly by State-run and private enterprises in developing countries. However, there are serious structural barriers that prevent them from being used in many countries or in being applied to trade among developing countries.

138. Numerous risk management instruments and techniques are available today, covering a range of widely-traded financial instruments, currencies, commodities and precious metals. Instruments which should be particularly relevant to Trade Point clients include:

- Commodity and precious metal futures, options and swap contracts. These allow exporters to hedge against future fluctuations in the price of the underlying commodity. Products for which derivative instruments are widely traded include oil, gold, corn, wheat, coffee, livestock, lumber, sugar, copper, cocoa, cotton, silver and platinum. Most of these instruments are exchange traded; however, many financial institutions and trading firms will arrange bespoke contracts.

- Currency-based derivative instruments including forward contracts, futures, options, swaps and related techniques. Once limited to short-term maturities, traders can now hedge currency exposures on trade and financial transactions for up to several years. Many of these instruments are exchange traded; for example, the Philadelphia Stock Exchange specializes in foreign currency options. However, the majority of contracts are arranged on a bespoke basis by financial institutions and traders.

- Financial instrument and interest rate derivatives include forward rate agreements, futures, options, swaps and a range of related techniques. The exchange-traded contracts are usually based on widely traded debt and equity securities as well as major market indexes. Examples include United States government bonds and the Nikkei Index. These are commonly used to hedge interest rate and equity market exposures. Many exporters and importers use interest rate swaps and related instruments to fix or reduce their costs of borrowing when financing a major trade transaction or construction project.

139. A recent World Bank report cited estimates that more than 25 per cent of the funds raised in 1989 by 16 developing countries on the international capital markets utilized some type of risk management instrument (Claessens, 1993). The report also noted that some United States exchanges specializing in livestock and currencies have estimated that 15-25 per cent of the foreign participation in their markets comes from developing countries. Examples cited include Eurodollar futures (Chile), oil price hedging (Mexico), currency options (India, Indonesia and Turkey), loans with oil options (Algeria).

140. Some developing countries and economies in transition have established indigenous exchanges for trade currency and commodity instruments. For example, the Budapest Commodities Exchange began offering currency futures in March 1993 and facilitates trading in a number of other currency-based derivative instruments.

141. Potential barriers to the increased use of financial risk management services include:

- Creditworthiness of the firms purchasing risk management instruments.

- Upfront costs or premiums.

- Domestic structural barriers, such as national marketing boards or exchange controls.

- Government intervention or risk assumption where market alternatives are available.

- Lack of liquidity in hedges involving developing country currencies or lack of appropriate market-traded instruments.

142. In May 1993 UNCTAD convened a meeting of a group of experts in Geneva to explore approaches to promoting the increased use of commodity futures contracts. The participants identified many regulatory and technical barriers to the utilization of these instruments and developed proposals to dismantle many of the obstacles. One of the major impediments cited was an insufficient understanding of the function and use of derivative instruments among Governments and potential users in developing countries. Improved training and advisory services, including those provided by UNCTAD, were among the recommendations arising from the second session of the expert group in September.

Guidelines

143. Local Trade Efficiency Associations (LTEAs) should determine the financial risk management needs of their clientele and develop seminars or training programmes to explain the relevant techniques. For example, UNCTAD has sponsored training programmes in the use of commodity futures. If potential demand is adequate, the LTEAs should also facilitate access to risk management services by their clients. These services could either be provided through affiliated financial institutions (e.g. forward contracts in foreign currencies) or by qualified foreign institutions/brokers identified through the financial services referral function.

144. Local Trade Efficiency Associations should also consider lobbying their national governments if legal/regulatory barriers are impeding the utilization of modern financial risk management tools.

G. Cargo/Marine insurance

145. Cargo and marine insurance is one of the oldest, most regulated and most tradition-bound sectors of the insurance industry. It is also a relatively small part of the industry and thus has not been the target of the technological innovations that are affecting other insurance lines. The distribution of cargo and marine insurance is largely broker driven, while underwriting considerations focus on the maintenance rating of the ship and the safety record of its operators.

146. Coverage can vary between "minimum cover" policies and "all risks" policies, at the discretion of the insured. Insurance can be purchased for a specific shipment or cover all shipments for a set time period (open cover policy). Lloyd's insurance market has had a great deal of influence on the development of specific policy language and terms.

147. The property/casualty insurance industry has begun to develop telecommunications networks, such as RINET in Europe, to facilitate the exchange of claims-related and administrative information between direct insurers and reinsurers. Marine/cargo insurance underwriters do not yet participate to any significant degree in these networks, relying instead on telephone, fax and telex. Moreover, in many countries insurance documents are not included in the aligned system of documents.

148. A major obstacle to the further modernization of the cargo/marine insurance industry is the continued existence of regulatory barriers to international competition, as noted previously. Without regulatory reform, there are limited opportunities for Trade Points in developing countries and economies in transition to increase trade efficiency in the provision of cargo/marine insurance services.

Guidelines

149. Local Trade Efficiency Associations should recruit at least one marine insurance broker or underwriter into the Trade Point in order to facilitate easy access to insurance services. A full range of insurance alternatives should be available, although the open cover policy is the most efficient from an administrative point of view.

150. Local Trade Efficiency Associations should also consider lobbying their national Government to permit an easing of local-sourcing requirements for trade-related insurance and to work for the harmonization of international procedural conventions in marine insurance.

IV. FACILITATING FOREIGN DIRECT INVESTMENT THROUGH THE TRADE POINT NETWORK

151. The facilitation of foreign direct investment in developing countries and economies in transition is currently being addressed at several levels, including the following:

- On a national basis within industrialized economies by various organizations such as development finance institutions (DFIs), investment promotion agencies (IPAs), development cooperation organizations, government ministries, chambers of commerce and trade associations. Some countries, such as the United States and Japan, have several agencies that have investment promotion in developing countries as a major component of their mission. These agencies frequently rely on their embassy commercial departments or the host Government to perform information collection and administrative tasks within the countries targeted for investment.

- At the multilateral level through the various agencies and organizations which are currently assisting developing countries, including: (1) the United Nations, through UNIDO and the International Trade Centre UNCTAD/GATT, (2) The World Bank Group, particularly the IFC and MIGA, and (3) the European Union, through the Centre for the Development of Industry and the International Investment Partners. Although many of these organizations have local offices in developing countries they also rely on host country Governments and business associations for information on investment opportunities.

- In a limited number of developing countries through ministries for foreign economic relations and international cooperation agencies. Examples include the Agency for International Cooperation and Development in Russia and Malaysia's Industrial Development Agency. There are also inward investment promotion programmes in many developing countries, such as Egypt, Ghana, Hungary, Indonesia, the Philippines and Thailand. However, many of these programmes are in their early stages and most suffer from a lack of adequate resources to address their tasks assigned to them.

152. The services most commonly offered by these organizations (collectively referred to in the subsequent discussion as "IPAs") include:

- Information on investment conditions in foreign countries as well as relevant laws and regulations. These services can also include data on specific direct investment opportunities or host country initiatives to attract foreign investment. For example, the Overseas Private Investment Corporation in the United States operates an Opportunity Bank where investment proposals from over 100 developing countries have been registered.

- Matchmaking programmes, which are generally designed to inform potential investors or technology providers about opportunities in developing countries within their industry or area of expertise.

- Investment missions and conferences that bring together potential partners, either physically or through video-conferencing.

- Programmes to promote investment opportunities within specific industry sectors, which combine elements of the latter two services on a more targeted basis. This is an increasingly popular service because of its high perceived cost-effectiveness.

- Subsidy programmes to support feasibility studies on potential investment projects. Many of the organizations operating these programmes also provide other financial and technical support, including (1) project preparation services, (2) subsidies for expatriate managers or training/apprenticeship programmes conducted for local nationals, (3) loan or equity capital, and (4) political risk insurance (FIAS, 1991).

153. Although this plethora of organizations and programmes plays an important role in facilitating foreign direct investment, the lack of coordination among these institutions inevitably leads to certain inefficiencies, including the following:

- Obtaining information on investment opportunities can be difficult due to resource constraints at the local level. The approaches to qualifying investment proposals as well as the content and format of investment information provided to IPAs are generally not standardized.

- Broadcasting specific developing country investment opportunities to all of the appropriate IPAs can require a significant administrative effort.

- Many investors, even seasoned multinational corporations, experience difficulties in identifying and accessing the appropriate programmes and services.

154. Trade Points in developing countries and economies in transition can play a useful role in addressing the former two areas of inefficiency, that is, identifying promising investment opportunities and liaising with the appropriate IPAs. Many Trade Point clients, particularly SMEs, are looking for foreign partners to provide finance, expertise or technology. Trade Points in developed economies can steer inexperienced firms to the appropriate national or multilateral IPA.

155. In addition, many Trade Point users may be seeking joint venture partners to distribute their products abroad, particularly if after-sales service is a major consideration. This area is frequently not a high priority for IPAs although some trade promotion organizations offer matchmaking services.

1. Guidelines

156. The Local Trade Efficiency Association should first consider whether to provide services in this area. Unlike trade facilitation, many of the benefits to the Association members will be derivative and realized over a longer period, as the export volume of local joint ventures increases. There may also be some limited opportunities to earn fees by providing local support or consulting services to IPAs, particularly if the host Government is unable to field the appropriate resources.

157. The Trade Point Network should attempt to facilitate the efficient flow of information within the investment promotion community rather than duplicate existing programmes. This can be accomplished at several levels:

- Providing local resources to identify and qualify investment proposals and direct them to the appropriate IPAs, particularly those that maintain formal investment opportunity databases.

- Collaborating with IPAs in promoting and conducting investment missions, particularly those focusing on an industry sector that is well represented within the Trade Point's clientele. Many IPAs rely on host Governments or business organizations for local support in organizing these missions.

- Participating in the establishment of common approaches and standards that address the qualification of investment proposals as well as the information content of messages that communicate these opportunities to the IPA community.

- Participating in the development of a network and database(s) to collect and disseminate information on investment opportunities in a more cost-effective manner. In particular, UNCTAD and the LTEAs should consider participating in the initiative described below to create an IPA Electronic Network linking the investment promotion community.

2. Implementation considerations

158. A possible framework for the development of an investment promotion capability is the IPA Electronic Network, which is being spearheaded by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. The project is currently in the organizational stage and several institutions, including UNCTAD, have been invited to participate in its development. It is envisaged that the Network will eventually include investment promotion organizations, chambers of commerce, trade associations, DFIs, investment advisers, consultants, information and telecommunications providers, and the media.

159. In the initial phase, the participating organizations will develop directories and bulletin boards that facilitate the exchange of information and experiences, the advertising of relevant services, and the showcasing of upcoming events and opportunities. After the Network is fully operational, MIGA expects that it will include "global databases on actual and prospective foreign and domestic investors, the business operating conditions and investment opportunities in developing and transitional countries, and global market conditions and opportunities in selected industries and sectors". The IPA Network will use the INTERNET as its telecommunications medium.

160. The association of institutions involved in developing this network will also provide an excellent forum for addressing issues relating to the harmonization of information requirements, message formats and qualification methodologies, which were raised above.

V. CONCLUSION

161. A key requirement for the continued development of international trade among developing countries and economies in transition will be the creation of a financial environment in these countries in which modern financing and insurance techniques can be freely utilized, regardless of the directions of trade. This should be viewed as a long-term process, with effort required on many fronts - legal, regulatory, financial, educational and technological.

However, the international and multifunctional capabilities of the Trade Point Network offer an excellent platform from which to address these issues.

162. This paper presents a menu of options which the Trade Points can consider in their continuing efforts to provide their clients with a full range of financing and insurance alternatives. The next step in the process is for selected LTEAs to choose particular options to be implemented on a pilot basis, with support from the UNCTAD secretariat. The results of these pilot projects will then be presented at the United Nations International Symposium on Trade Efficiency (UNISTE) along with detailed guidelines for the other Trade Points to follow if they choose to undertake similar initiatives. In this way these and other financial techniques and mechanisms can be propagated throughout the Trade Point Network without the need to "re-invent the wheel" in each individual case.

Appendix A

LIST OF ORGANIZATIONS CONTACTED FOR THIS STUDY

American Institute of Marine Underwriters

Arthur J. Gallagher Intermediaries, Inc.

Bankers' Association for Foreign Trade

Bank of New York

Berry, Palmer & Lyle, Ltd. (Lloyd's Brokers)

BIS Banking Systems

CIT Group

Citibank

Complex Systems, Inc.

Development Alternatives, Inc.

European Capital

Factors Chain International

First Washington Associates, Ltd.

GJ Sullivan, Inc.

Global Trade Insurance Management Pte Ltd.

Graydon America

Hungarian International Bank

International Bank for Reconstruction and Development

Justitia International

Lombard NatWest Commercial Services

Samuel Montagu & Co. Ltd. (Midland Bank)

Multilateral Investment Guarantee Agency

National Westminster Bank

Opal Trade Corporation

Overseas Private Investment Corporation

SITPRO

SWIFT

Trade Point - Bangkok

Trade Point - Cairo

Trade Point - Cartagena

Trade Point - Manila

Trade Point - Santiago

Trade Point - Tunis

UNCTAD

US Agency for International Development

US Chamber of Commerce

US Department of State - Legal Affairs

WFS Group, Ltd.

World Trade Centers Association

Appendix B

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CONSIDERATION OF GUIDELINES ON KEY SECTORS FOR TRADE EFFICIENCY: BUSINESS INFORMATION FOR TRADE

Prepared by the International Trade Centre UNCTAD/GATT

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The International Trade Centre UNCTAD/GATT (ITC) is the focal point in the United Nations system for technical cooperation with developing countries in trade promotion. Throughout its 30 years of experience, the provision of technical assistance in the area of business information has been one of ITC's major activities.

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INTRODUCTION

1. Business information plays a key role in international marketing and competitiveness. The capacity to get the right business information to the right place at the right time and the right price, and knowing how to use it is a major factor influencing international trade efficiency - a point that is not always fully appreciated. Demand and supply conditions for business information are often imbalanced. Problems of availability, selection, access and international comparability hamper enterprises in making the best use of this information. This can be particularly damaging for newcomers to international business, to small- and medium-sized companies and, in particular, to companies in developing countries and economies in transition. Not having access to the relevant business information can be as serious an obstacle as are tariff and non-tariff barriers. After the successful conclusion of the Uruguay Round, there is thus a case for a concerted international effort to harness business information fully for making international marketing and trade more efficient. In this sense, business information represents an important element for the Special Programme for Trade Efficiency and, in particular, the creation of Trade Points.

2. The objective of the present paper is to examine, against the background of users' requirements, the availability, access, and utilization of business information for international marketing and trade, and to recommend actions as to how and by whom identified bottlenecks and deficiencies can be removed.

A. International marketing: key to competitiveness

3. The point of reference for the competitiveness of enterprises is rapidly moving from domestic to international markets. The opportunities and challenges arising from the internationalization of business activities have a polarizing effect: companies are competitive at the global level or their existence is threatened. The importance of international markets is no longer confined to larger firms and smaller countries. For millions of companies all over the world, internationalization is no longer an option: it is a condition for survival. At the macroeconomic level, outward-looking and market-oriented strategies are a precondition for economic growth and development.

4. Exports to new markets and international sourcing of inputs are the most common points of departure towards internationalization. The dynamic development of world trade bears witness to this trend: over the last few decades, world trade has continuously expanded faster than international production. For developed market economies, trade (exports and imports) is now equivalent to over one quarter of GNP. For developing countries, it is as much as one half. All projections point to further reinforcement of the world's trade orientation and, in turn, intensifying international competition.

5. Increasing competition in product markets is accompanied by the growing importance of the marketing function: production has become marketing-led in the sense that the identification of effective demand has become the first step in the business cycle. Production is increasingly determined from a marketing perspective. It is not the production process in isolation that

decides about competitiveness, but the efficiency of the entire international marketing chain from procurement of inputs to distribution of finished goods in the target market. Hence the importance of the Special Programme for Trade Efficiency. Choice and management of the marketing chain are the result of a planning process, in which business information plays a key role. This holds true for the domestic market, but is even more essential for operating in foreign markets. International marketing is the active and sustained response of enterprises to the challenge of international trade. It is a concept that encompasses both exports and imports.

6. The importance of marketing and other trade support services comes out clearly from a breakdown of value added in international trade. Parallel to the service sector's rise to account for about two thirds of the national product in developed market economies, support services contribute the larger part of value added in international trade for many products. Trade support services include information services, trade logistics, trade finance, trade insurance, product promotion and advertisement, distribution in the final market, etc.

B. Business information: essential input for international marketing

7. The development of international marketing has been closely intertwined with the rapid evolution of business information. For the purpose of this paper, business information is defined in the broad sense as all information required by enterprises for the efficient planning, execution and monitoring of international marketing. This includes not only raw data, e.g. statistics and contact data, but also market intelligence as it is available through personal contacts and from specialized trade service companies and institutions. It includes, as well, the information required by public trade promotion organizations to be passed on to the enterprise sector.

8. Business information and information technology are to a large extent responsible for the emergence of global markets. Business practices and strategies such as lead time reductions (e.g. "just-in-time") or global sourcing would simply not be feasible in the absence of comprehensive business information and software to analyse it.

9. In this sense, business information has become indispensable for the transition from a passive to an active or strategic approach towards international marketing. Business information and technology have thus become key inputs for international marketing. The utility of business information is immediately obvious: obtaining detailed insights into specific market requirements before full-scale production; identifying the most suitable foreign buyer rather than relying on casual contacts; knowing about import regulations or packaging requirements before goods are shipped; finding the most competitive source for imported inputs all have a major impact on the efficiency of international trade. There is, in fact, a whole new discipline in business science referred to as competitive intelligence, which focuses on the importance of business information for the competitiveness of enterprises. This does not imply that business information can replace the entrepreneurial dimension of international marketing. It cannot. Its contribution consists in providing the required data for informed international marketing decisions.

10. The market for business information, however, is complex and tends to suffer from a lack of transparency. This is due to a number of reasons: it is undergoing rapid technological change; it comprises a highly differentiated array of products and services; it comes in a large variety of forms, from oral advice to traditional publications and on-line databases. Suppliers of business information range from the company in-house market research unit to independent information brokers and government institutions such as trade promotion organizations or departments of statistics. In many countries, it is a regulated market in terms of reporting and confidentiality requirements and in terms of technical infrastructure (e.g. access to databases). Moreover, both the preparation and the use of business information for international marketing are highly human-capital-intensive activities. Finally, standardization of business information - which would improve availability and facilitate the exchange and comparison of business information across countries - is still only in the initial stage.

I. DEMAND AND SUPPLY IN RESPECT OF BUSINESS INFORMATION

A. Demand for business information: soldering the links in the international marketing chain

11. Assessing user requirements is the point of departure for any attempt to improve the availability of, and access to, business information (see Box 1). User requirements depend on numerous factors and may vary according to industry, type of enterprise and the phase in the international marketing cycle. Business information is the common requirement needed to ensure seamless progress through the various stages in the international marketing chain, from the decision to internationalize to product promotion in the target market.

12. Access to **general economic and business information** is a prerequisite to encourage enterprises to explore the scope for internationalization.

13. Business information plays the most important role during the phase of **market research, market selection and the preparation of an international marketing strategy**, which specifies the international marketing mix in terms of target markets, products, prices, logistics, distribution channels and promotion. During this phase, very specific information is required on product and market studies, trade statistics, prices, trade regulations, information on product specifications and standards and quality requirements, marketing channels, commercial practices, packaging requirements, etc.

14. Access to business information on trade opportunities and contact data on foreign buyers and suppliers is essential for the **acquisition of contracts** and for establishing the international marketing channel. Access to data on characteristics and credit ratings of potential partner companies, in particular their financial soundness, is equally important at this stage.

15. These first three stages in the international marketing cycle have a strategic or planning character. They cannot be carried out effectively without access to business information. Of course, these stages are not one-off exercises but require continuous monitoring and updating.

Box 1

Users' needs surveys

Assessing users' needs should be a permanent preoccupation of trade information services in order to ensure the relevance and efficiency of their information supply operations. To this end, a methodology has been designed by ITC, based on mailed questionnaires and direct contacts (see article 1990/1 in the International Trade FORUM). In 1993, ITC compared the results from six of these surveys, covering a large cross-section of developing countries and users categories.

Although it is difficult to draw general conclusions, due to the geographical and sectoral diversity of the users' groups surveyed, it was found that the following types of business information were considered as most important in nearly all cases:

- trade contacts (company information in the form of directories or databases);
- trade opportunities (communication of buyers' demands and sellers' offers);
- market information (data on market characteristics, distribution channels and competition);
- other business opportunities (for investments, joint ventures, technical and commercial cooperation);
- trade statistics (import/export data).

Users' needs analyses should encompass many other categories that are critical in certain sectors, such as commodity prices, tenders, information on trade fairs and exhibitions, development projects, trade regulations, technical standards, etc.

Product and market priorities need to be assessed in order to define appropriate orientations for market research and marketing strategies. Users should also express their preferences regarding access methods and forms of presentation for each category of information, so as to improve dissemination methods.

16. In general, the strategic or planning part of international marketing does not replace, but prepares for, the personal contact between buyers and sellers or other members of the international marketing chain. If anything, the unprecedented growth of information to often indigestible volumes

reinforces the importance of personal contacts. The strategic or planning part of international marketing invests with new importance the direct contacts that emerge as the result of a careful selection process and have an ascertained potential for a longer-term, sustainable business relationship.

17. The next two phases in the international marketing cycle are **international logistics management**, and **distribution and promotion in the target market**. Business information plays a different role during the latter two phases, which represent the implementation side of what has been planned and prepared during the first three stages. Here, business information is required mainly for monitoring and controlling the process, adapting it as necessary. Moreover, business information at these stages is often embodied in the relevant trade support services rather than being available in an unbundled or loose form as for the earlier three stages. For example, indicators on market growth for a particular product in a given country can be obtained separately and from public sources, whereas advice on the most suitable publicity campaign in the target market is generally available only in the context of a contract with an agency specialized in this field.

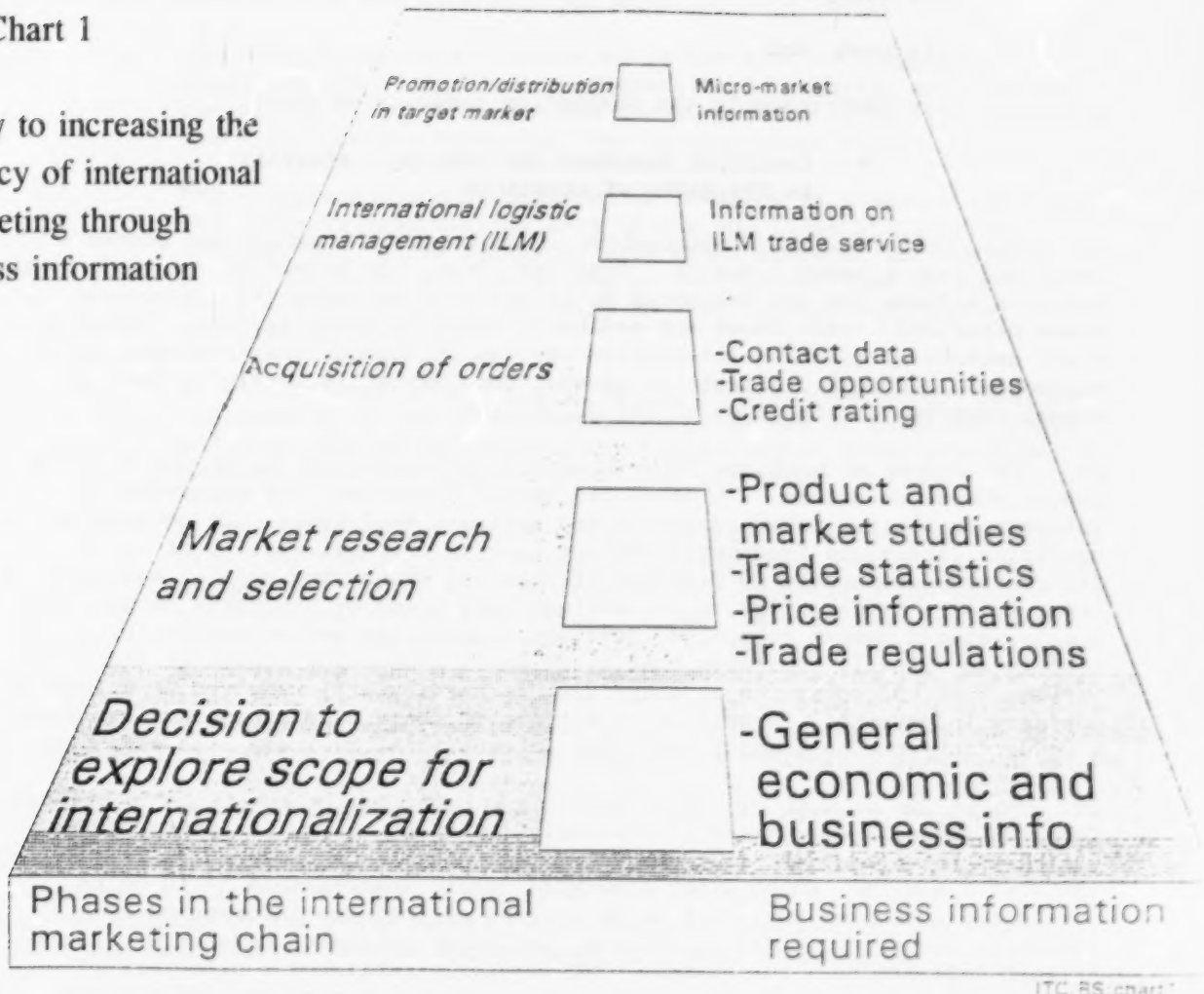
18. These five phases constitute the milestones of an enterprise's journey to success in the international marketing venture. They may be conceived of as a runway to international business development, as shown in chart 1.

19. Demand for business information and its effective utilization also depend on the absorption capacity of the enterprise embarking on the internationalization process. Becoming involved in international marketing is a continuous learning process. All the information needed may not be available, and the information available may not be usable. A first-time exporter or importer, for example, may simply not have the know-how to select the most promising market and to develop a proper international marketing strategy on the basis of available raw data. He requires business information at a higher level of analysis, e.g. tailor-made market research for his products. In fact, many manufacturers in developing countries have embarked on their internationalization process by exporting production capacity rather than products, and have delegated all international marketing activities - from product design to promotion and distribution - to foreign buyers. The same applies on the import side to those importers who have remained passive targets of marketing campaigns of foreign suppliers.

20. It follows, therefore, that while there is a distinctive demand for business information at all levels, from raw data to comprehensive international business development plans, there is also a distinctive need for upgrading the absorption capacity through appropriate human resource development, in particular in developing countries.

Chart 1

Runway to increasing the efficiency of international marketing through business information



21. The major constraints impeding a more important contribution of business information to trade efficiency are the following:

- its relevance and specificity in relation to user requirements;
- its reliability;
- its timeliness, as business information is highly perishable;
- its consistency between different sources and countries to facilitate comparison;
- its ease of technical accessibility;
- its cost; and
- its adaptation to the absorption capacity of users.

B. Supply of business information: scarcity in the midst of abundance

22. The generation and dissemination of business information has become a large and fast-growing industry. Over the 1980s, the growth of the market for business information was estimated at 14 per cent per annum for databases, trade magazines, trade shows and seminars, research services, etc. There is a tight network of business information centres throughout the developed market economies. Although difficult to assess, this market is likely to have an annual turnover in the order of US$ 50 billion.

23. The supply of business information for international marketing is quite uneven across countries. In developed market economies, the abundance of information sources makes selection and analysis key issues. In developing countries, there are frequently serious gaps in the availability of information, compounded by problems of physical access and cost of business information. Differentiation of international trade by the three categories, i.e. developed market economies, developing countries and economies in transition, clearly indicates that trade among developing countries and between them and economies in transition is particularly hampered by a lack of business information. Resolving or mitigating these supply problems can make a major contribution towards rendering international business more efficient.

24. While the bulk of published business information is available in printed form, databases are becoming increasingly important. They are particularly useful in harnessing the enormous volume of information produced by large numbers of sources, which might otherwise remain inaccessible. ITC helps developing countries to locate major sources of business information by regularly producing guides to sources, including databases network providers of such information. For example, ITC regularly publishes a directory of on-line databases and CD-ROMs, and organizes advisory missions and training programmes on the selection of relevant information sources and their cost-effective utilization (see also the Bibliography).

25. The progressive shifting by information providers from traditional printed material to electronic information might, however, hamper companies in developing countries from accessing this information due to the lack of adequate telecommunication infrastructures and EDP facilities, and the high access costs. In addition, the use of electronic information sources requires the development of specialized technical skills which might not be affordable by individuals, especially of small and medium-sized companies. Finally, language barriers may also limit the usefulness of many of these information sources.

26. The market for business information consists of different segments, in which commercial suppliers, business associations, public-sector trade promotion organizations and international organizations coexist.

- The bulk of business information is provided by commercial suppliers and in particular by specialized business services and consulting firms, the business press, commercial on-line databases, banks and trading companies, and through trade fairs.

- Many business associations such as chambers of commerce and trade and industry associations have become suppliers of business information. Close relations with their members, well-defined common interests and operations at cost rather than on a profit basis are major characteristics of this type of supplier of business information.

- At the national level, public sector institutions supply business information in two forms, namely as producers of trade and other business statistics, and through public-sector trade promotion organizations and trade commissioner services.

- At the international level, there are several intergovernmental organizations supplying business information: the United Nations Statistical Office and the International Monetary Fund produce international trade statistics. Other organizations publish a variety of economic and social data as well as market and industry studies (e.g. the World Bank, OECD, UNIDO, FAO, UNCTAD, ITC). In addition, they are involved in setting standards for international business information, in developing tools and methodologies for collecting, analysing and disseminating business information and in providing technical assistance in this field. ITC and UNCTAD's Special Programme for Trade Efficiency are cases in point.

27. Table 1 provides an overview of these different institutional types of suppliers classified by their scope of activity. These institutions all have a role to play in the Trade Points, which serve as information nodes as well as trade facilitation centres and gateways to global competition.

Table 1

Overview of suppliers of business information for international marketing

General type of supplier	Subsector
Commercial	Business information services and consulting Database providers (hosts) Business press and other media Banks Trading companies Trade fairs Suppliers of international logistics
Business associations and related entities	Chambers of commerce Industry associations Exporters and importers associations Employers associations
Government sector	Ministries (commerce, industry, agriculture, etc.) Trade promotion organizations Trade commissioner services Department of statistics Customs department
Intergovernmental organizations	1. Global: FAO, GATT, IMF, ITC, OECD, UNCTAD, UNIDO, UNSO, World Bank 2. Regional: United Nations Economic and Social Commissions, EU, PTA

28. While the predominance of commercial suppliers of business information is to be expected in market economies, it is striking that Governments in all developed market economies and practically all developing countries and countries in transition provide trade promotion services consisting largely of business information. This has hardly changed in spite of the recent privatization trend, although the effectiveness of the various public sector trade promotion services, including trade commissioner services of embassies, is not always considered optimal. On the contrary, it appears that globalization pressures have led many Governments to step up their efforts to provide business information and market intelligence to their local business community.

29. What is the case for government institutions to supply business information? There are no detailed cost-benefit analyses on this point - a gap which needs to be filled. However, as may be gathered from ITC's experience as set out in the following chapters, public-sector institutions do have a key role to play in the collection, analysis and dissemination of business information.

30. The factual role of the public sector as a supplier of trade information calls for intergovernmental bodies such as those of the United Nations family to act as forums for exchanging experiences, setting standards and drawing up conventions, etc., all with a view to increasing efficiency in international trade.

II. ACQUIRING BUSINESS INFORMATION: CONSTRAINTS AND OPPORTUNITIES

31. A brief description of the major types of business information required for international marketing is given below. In each case, issues concerning availability, access and utilization are outlined. Recommendations specific to each type of information are also given, complementing the more general recommendations made in section III of this paper.

A. General economic and business information: the eye opener

32. Internationalization is invariably triggered by the decision of enterprises to explore or reassess the scope and opportunities for more outward-looking operations. Whether or not enterprises take this decision depends, like any other innovation, on access to the right signals and information.

33. There are at least two necessary preconditions for enterprises to take a serious look at internationalization. First and foremost, internationalization has to offer the potential of long-term profits at least similar to those for activities on the domestic market. Expecting the business community to undertake an export effort when the domestic market is highly protected and offers higher rates of return is obviously unrealistic. The same applies to the choice between supplies from the domestic market and imports. In short, international price signals have to be correct.

34. Second, enterprises need to have some basic knowledge of foreign markets in order to consider diversification into exports and imports as an area for innovation. It is in this context that access to general economic and business information is important. Such information comprises, inter alia, sectoral analysis and industry reviews, reviews of product and factor markets, overviews of financial and currency markets, trends in technology, country profiles and company news.

35. Internationalization of markets implies that access to general economic and business information is important irrespective of whether producers undertake their own international marketing or rely for the marketing function on specialized firms such as trading companies or buying agencies. Even for companies operating exclusively in the local market, awareness of major trends in the global economy is becoming increasingly important.

1. Availability

36. General economic and business information is provided by the international business press and other media, banks, research institutes and a variety of other sources. Overall, the supply of information on global economic and business trends is abundant. In developing countries, a growing

number of business journals and other media are covering general economic and business information. In sum, the supply of this type of business information is not an obstacle to more efficient trade.

2. Access

37. High prices - compared to local purchasing power - represent an obstacle to access in a number of developing countries. Trade documentation centres of business associations or public trade promotion organizations may alleviate this situation. Moreover, access problems exist in some countries that restrict the circulation of selected international business papers or the diffusion of other media carrying general economic and business information, or where foreign exchange is not made available to acquire this information as needed.

3. Utilization of information

38. Most important is the change in business mentality required to move from an inward-looking to an outward-looking economy. It is this change which enables enterprises to proceed from a passive review of general economic and business information to actively seeking for business opportunities, and to advance from a knowledge of international marketing to know-how in this area.

39. Experience shows that public sector trade promotion organizations and trade and industry associations can, under certain conditions, make a contribution to this transition. All the following measures can help firms to react to international trends as identified through general economic and business information, and to place the diversification of export markets and import sources on the agenda of the business community:

- Making international trade a priority in economic development, e.g. in policy statements, development plans, etc.;

- Organizing "Think Exports" campaigns. In one of these campaigns in Costa Rica, the importance of exports was included in the syllabus of primary schools;

- Giving public recognition to leading exporters and traders through prizes and awards. This approach has been embraced by many countries, including Colombia, Ghana, Malaysia, Sri Lanka and the United Kingdom.

4. Actions recommended

40. It is recommended that Governments, trade promotion organizations and business associations:

- Encourage enterprises - and in particular newcomers to international trade and small and medium-size enterprises - to explore the scope for internationalization;

- Facilitate and promote circulation of, and access to, sources of economic and business information, which represents an important input in the transition to a more outward-looking development pattern.

B. Product and market studies: the overall picture

41. Once a decision has been taken by a company to explore the scope for internationalization and an appropriate company strategy has been developed on the basis of decisions on export/import rationale and prospects, two important steps have to be accomplished before entering into the operational phase of the foreign trade venture: the formulation of the marketing strategy and of the marketing plan.

42. It is at this stage that information plays the most critical role: in fact the decisions to be made in relation to the export marketing strategy (such as on the company's priority products for export, target markets, distribution policy, individual export approach or joint venture) and to the marketing plan (on the traditional elements of the marketing mix) require the knowledge of a wide spectrum of variables of the international trade environment. The same also applies to developing a supply strategy for imported goods. The importance of correct decisions at this stage, supported by reliable and pertinent information, is crucial. As for any decision or action, the probability of succeeding is directly proportional to the information available and the capacity to analyse and interpret this information.

43. Companies have two alternatives at this stage: to undertake their own market research (either directly or by commissioning a specialized consultancy firm to do it) or to utilize existing product and market studies. The second alternative represents a powerful tool to support the decision-making process, especially of small and medium-size enterprises that cannot avail themselves of the necessary professional skills or the adequate financial resources for carrying out their own research.

1. Availability

44. A substantial number of product and market studies are produced and made available for international distribution by trade promotion organizations, import promotion offices, chambers of commerce, trade and industry associations, international organizations (such as ITC, through its programmes of product and market development and market briefs) and commercial information providers.

45. The coverage and format vary from in-depth and detailed market surveys to short and succinct market briefs for specific products and product groups. While the amount of information material and the degree of analysis differ, the main aim of all the studies is to provide an insight into the structure and trend of the markets and information on the most appropriate and productive ways to access these.

46. The advantages of having access to market surveys are evident as they allow exporters and importers to make use of information already analysed and interpreted by specialists and thus obtain an immediate appreciation of the business opportunities offered by potential markets.

47. Nevertheless, potential exporters and importers using these studies should be aware of their limitations: they may not cover exactly the desired product(s) or market(s), they usually become rapidly obsolete, and often ignore developing countries.

2. Access

48. In view of the large number of product and market studies being published, the main problem faced by companies, especially in developing countries, is to keep abreast of their availability. In addition, the usually high cost for their acquisition can impede access to this information.

49. Various reference sources are available, in the form of printed directories and databases, both on-line and on CD-ROM. ITC maintains a specialized database, "Published Market Research - PMR", which records the studies produced by ITC itself and other cooperating organizations, most of which are available free of charge. An annual directory based on PMR is disseminated to developing countries. Among commercially published directories, FINDEX and MarketSearch can be mentioned. Databases such as Agris, PTS F&S Indexes and Trade and Industry Index give a reference to the source and indicate coverage with key-words (for countries, products and other subjects). Others provide an abstract summarizing the contents of the original publication with the main conclusions and supporting data, for instance ABI/Inform, BIS Infomat, Delphes and Predicasts Prompt. The full text of the source documents can be found in Frost & Sullivan Market Reports, Financial Times Full Text and Textline.

3. Utilization of information

50. The use of product and market studies can greatly facilitate the appreciation of market potentialities and of appropriate marketing approaches by companies interested in internationalizing their business scope. Nevertheless strategic decisions should not be based merely on these studies; each company has to develop its own marketing strategy and marketing plan by adapting the indications of the studies to its own conditions. This implies the capacity to analyse and interpret as well as additional specific research on the prospect markets, through desk research and, if necessary, field research. This brings up the fundamental problem of developing capacities at the company level for the correct selection, analysis and interpretation of data and information.

4. Actions recommended

51. It is recommended that business associations:

- Sustain the collection and dissemination of product and market studies made available internationally, and of the information

material and data necessary to enable companies to undertake their own research or to complement existing product and market studies;

- Organize training and other human resource development activities to improve skills in the use and execution of market research.

52. It is recommended that international organizations:

- Reinforce the capacity of information supply and increase the transparency of available product and market studies;

- Support human resource development activities related to market research and information management;

- Foster the preparation and exchange of supply and demand studies at regional and subregional levels.

C. Statistical data: getting the hard facts

53. Statistical data make an indispensable contribution to macroeconomic and industry-specific assessments of target markets and supplying countries. Business information can be derived, in particular, from statistics on foreign trade, production, consumption, population, income, prices, transportation, balance-of-payments and socio-economic indicators.

54. Trade statistics are a primary input for market research and in particular for market selection. They provide, at comparatively low cost, an overview of export and import values, and of quantities and trends, broken down by product and country. As the collection of foreign trade statistics has reached a high level of international standardization, the analysis of trade flows on the basis of foreign trade statistics allows a smooth shift of focus from national markets to regional groupings and world market analysis. The value of foreign trade statistics for marketing depends to a large extent on their timeliness, on how detailed the product classification is and on the skill of the user in the fairly technical task of processing and analysing trade statistics.

55. In recent years, trade statistics at the level of individual enterprises and including contact data are becoming available in a growing number of countries. This new presentation of trade data, which has been actively promoted by ITC, bridges the gap between microeconomic and macroeconomic trade flow analysis and is particularly useful for market research.

56. As far as the product classification is concerned, there is only limited comparability between trade statistics, on the one hand, and official production, consumption, investment and transport data, on the other.

1. Availability

57. The availability of merchandise trade statistics is good for most developed market economies and newly industrializing countries, although there remains room for improvement. For most of these countries, trade data by products (Harmonized System) and countries become available to the public

within six months. In contrast, for most low- and middle-income developing countries, data are not available or only with such a long delay that their usefulness is seriously affected. COMTRADE of the United Nations Statistical Office, which is the most comprehensive database on foreign trade statistics, is a case in point. About 120 out of the 160 reporting countries do not provide data within one year for the relevant period (see ITC's recent worldwide overview on the availability of foreign trade statistics). A major effort is required to improve this situation. Moreover, the availability of data on trade in services leaves much to be desired.

58. The availability of product-specific statistics on production, consumption, investment, etc. is far more limited than that of foreign trade statistics, which are a by-product of customs procedures.

2. Access

59. Access to foreign trade statistics for international marketing remains a problem, in terms of physical availability as well as in terms of cost.

60. In view of the large volume of data, trade statistics are well suited for dissemination in machine-readable form. Optical disks and on-line databases are particularly suitable. However, to date only the European Union and the United States prepare detailed - i.e. at least HS 6-digit level - foreign trade data on CD-ROM.

61. The costs of foreign trade data remain uneven and, for some series, prohibitive, in particular for traders in developing countries. One of the world's largest trading nations, for instance, charges around US$ 900 for its detailed trade statistics in published form and does not provide them on optical disk. Prices for the CD-ROM COMEXT covering trade of the European Union amount to over US$ 700 per disk. On-line access to large statistical databases such as COMEXT, COMTRADE and TRADSTAT is demanding in technical terms and associated with high costs to end-users, notably in the developing countries.

62. The growing availability of secondary sources with trade data on CD-ROM and user-friendly retrieval programmes is encouraging (e.g. UNCTAD's TRAINS and Statistics Canada data on CD-ROM). Since 1975, ITC has provided time-series in different forms (e.g. microfiche, printouts, diskettes), tailored to the needs of market researchers, with related training, and plans to produce a database on CD-ROM.

3. Utilization of information

63. The utilization of foreign trade statistics for marketing purposes is not obvious from the outset. Preliminary market selection and assessment of competing supplier countries on the basis of foreign trade statistics is a useful but cumbersome process, and analysis and interpretation require some experience. Improving this situation calls for the development of more user-friendly sources and software for foreign trade statistics and - in particular in developing countries - for increased awareness and training regarding availability and utilization of foreign trade statistics for international marketing.

4. Actions recommended

64. It is recommended that governments, trade promotion organizations and business associations:

- Ensure the availability of up-to-date trade statistics and their timely submission to the United Nations Statistical Office and other relevant bodies;

- Consider the preparation of foreign trade statistics on CD-ROM or in other machine-readable formats with user-friendly software at reasonable prices. Possibilities of providing data to trade information centres in developing countries (including Trade Points where and when they exist), at discount prices should be explored;

- Ensure reliability of data on trade volumes and quantities in their foreign trade statistics;

- Consider the preparation of enterprise-level information on the basis of customs data with due respect for national confidentiality requirements. Experience in this area has already been gained by ITC (and presented to the Working Group) by using ASYCUDA-generated data. This is expected to be pursued and expanded as the number of ASYCUDA countries and TP countries increases;

- Apply internationally compatible product nomenclatures for trade and other economic statistics (e.g. HS).

65. It is recommended that the business community:

- Fully cooperate in the provision of reliable trade data to customs authorities.

66. It is recommended that international organizations:

- Make an effort to improve the coverage (e.g. developing countries) and user-friendliness of trade statistics. This includes the dissemination of COMTRADE data according to the Harmonized System and on CD-ROM.

- Assist business associations to provide training for the various user groups of foreign trade and other statistics.

D. Price Information: the bottom line

67. An exporter or importer without price information is blind. Price information is essential because:

- it provides exporters and importers with a primary basis for determining whether or not international trading operations are economically viable, either immediately or in the longer term;

- if not immediately viable, it allows them to set specific targets and to ascertain which cost-related measures are needed to meet those targets;

- it provides them with an important indicator of the evolution in supply and demand and of key influencing factors (e.g. economic and political conditions, technological developments, etc.).

1. Availability

68. Price information is readily available on a regular basis - often daily - for most primary commodities, particularly those traded on commodity exchanges. Sources range from general business dailies and specialized publications (e.g. UNCTAD'S Monthly Commodity Price Bulletin) to teleprinter/on-line services (e.g. Reuters). ITC's Market News Service (MNS) provides price information collected directly from the trade, on a subscription basis, for a range of processed and semi-processed agricultural products as well as for pharmaceutical raw materials. ITC also provides price information on request, through its enquiry-reply service.

69. Reliable and up-to-date price information is much more difficult to obtain for manufactured goods. Here one must rely on sources such as supplier's catalogues and price lists, articles and advertisements in the trade press, specialized consumer magazines that publish surveys of competing consumer goods, and trade contacts. Published market surveys provide information on trends in markets, technologies and prices. An increasing amount of price information is extracted from these published sources and also made available through on-line databases.

70. Some governments issue regular statistics of local prices and/or price indexes for certain products, product groups or production sectors. These statistics are helpful both for monitoring trends in prices and costs, and for reference purposes (e.g. they are used in price revision clauses in contracts). The comparability of these price statistics from country to country, however, is limited by a lack of standardization.

71. A proxy for prices - unit values - can be obtained from foreign trade statistics. This information can serve for purposes of historical and trend analysis, but is of little use wherever statistical groupings do not represent a homogeneous set of goods.

72. A number of developing countries' governments employ specialized inspection agencies for price surveillance of imported goods, but this source of price information is not usually available independently.

2. Access

73. Price information must be reliable and up to date to be useful in export and import marketing. The problem for managers in many developing countries is that, in general, they receive published sources less rapidly than do their counterparts in the industrialized countries. This places them at a relative disadvantage, for example, in the negotiation process. Access to on-line price information is often hampered by inadequate telecommunications

facilities. Some services, such as ITC's MNS, are accessible by fax, electronic mail or airmail. Price information - as is often the case for many other kinds of business information - is usually quite expensive, thus limiting the ability of exporters and importers in developing countries to obtain it as needed.

3. Utilization of information

74. Price information is essential for daily commercial work but is also useful for historical and trend analysis. It must be correctly analysed and interpreted to be useful for decision-making in international trade operations. The exporter or importer must take into account:

- the underlying factors influencing prices, which can change rapidly and alter substantially the expected consequences of decisions;

- the fact that prices are linked to variations in specifications and levels of quality as well as to commercial considerations such as quantity of purchase, supplier availability/reliability, delivery schedule, the nature of the seller-buyer relationship, terms of payment, currency used and exchange risk, supplier services required, quoted commercial terms, the use of fixed vs. adjustable prices, etc.; and

- the fact that the price is only a part of the total cost of the supply chain, and that other cost factors must be considered (e.g. international logistics costs, marketing costs, operation and maintenance costs, administrative and financial costs associated with the supply process, etc.).

75. Exporters and importers must also obtain information on related factors (e.g. commercial practices, technical specifications, other cost elements) necessary to place price information in its appropriate context. In addition, it is vital for them to have the knowledge and skills as well as the methodological tools (e.g. computer-based packages) necessary for analysing, interpreting and effectively utilizing price information.

4. Actions recommended

76. It is recommended that governments, trade promotion organizations and business associations:

- Collect and disseminate up-to-date and reliable primary statistics on prices and price indexes for a selected range of products traded in local markets and/or exported/imported, using standardized product/sector classifications. They should publish this information and/or make it available through on-line databases. Trade Points can contribute to the collection and dissemination of such information.

77. It is recommended that international organizations:

- Produce a comprehensive and regularly updated directory/database of sources of price information.

- Expand price-based news services (e.g. ITC's MNS) to cover additional export and import products. Coverage should focus on the priority information requirements of developing countries and on information that is either unavailable or difficult for these countries to access.

- Identify and evaluate relevant existing software tools (e.g. for price trend analysis, cost-price calculation, price-related decision-support/expert systems, etc.), and make this information available to developing countries. Develop such software tools wherever they may be required and are either not available or not accessible to developing countries.

- Provide support to business sector institutions to design and implement training programmes in export/import management focusing on price-related issues, and to produce relevant training aids and materials. Make all of these available to appropriate institutions serving the business community in developing countries.

E. Information on trade regulations and technical standards: looking over the hurdles

78. Trade regulations are often capable of making or breaking an export/import opportunity, even though growing trade liberalization throughout the world is gradually diminishing their significance. They may include tariffs and taxes, as well as a wide range of non-tariff barriers such as quantitative limits, controls on use of foreign exchange, prior deposits, qualitative requirements and others. Technical standards may apply not only to the product itself but also to other elements such as packaging, labelling, etc. Standards are obligatory in some cases (e.g. food products, sanitary regulations, etc.), while in others they are applied on a voluntary basis by industry or required by consumer habit. Some of a country's trade regulations may apply globally, while others may pertain only to certain products or product groups, to specific partner countries or to particular manners of trading (e.g. compensation trade). In addition, trade regulations may change quickly, unexpectedly and dramatically.

79. The resulting picture for a potential exporter or importer can sometimes be quite complex. Not having access to up-to-date information on all applicable trade regulations in both countries concerned can at times mean delays, cost increases or even having to cancel a trade deal.

1. Availability

80. Information on trade regulations can be obtained from various sources. Official journals, which usually publish all relevant legislation, are a major source. However, it is virtually impossible for an individual importer or exporter to keep track of all the trade regulations issued in these journals

for all potential partner countries. In a growing number of countries, services have consequently been set up (either by official bodies or by private entities) to abstract and index these regulations - usually in the form of computer databases - in order to facilitate identifying and retrieving them as and when needed. Some of these databases are available through on-line international networks (e.g. US Code of Federal Regulations; the European Union's CELEX; Justis Eastern Europe; World Tariff; etc.)

81. A growing number of on-line databases furnish information on national, regional and international standards applying to products traded in the international marketplace.

82. Certain commercial publications (e.g. Exporters' Encyclopaedia, International Trade Reporter, Croner's Reference Book for Exporters/Importers, etc.) provide an overview of major trade policies and regulations, country by country. However, these sources are generally unlikely to give the level of detail required for specific cases (i.e. which regulations pertain in a given country to the import or export of a particular product).

83. Some specialized services exist which provide customs tariff data in published form (usually looseleaf) country by country, worldwide (e.g. World Tariff).

84. UNCTAD has created TRAINS (Trade Analysis and Information System), a computer database available on diskette (and soon on CD-ROM), which includes information on trade regulations by country and by tariff position. For its part, ITC is currently developing JURIS, a PC-supported database providing extensive text summaries in three languages of trade-related legislation from about 50 developing countries and countries in Eastern Europe. Further development of JURIS is expected in terms of country and subject coverage. Both TRAINS and JURIS involve a substantial and continued effort of data collection, much of which must be carried out by country liaison offices and correspondents, who also respond directly to enquiries. As data availability is not uniform from country to country, certain gaps inevitably exist in the coverage of these databases.

85. For most developing countries, up-to-date and precise information on trade regulations applicable to particular trade operations is often not available from a single source. It must be obtained through direct consultation with various concerned authorities (customs, ministries of trade, central banks, etc.) or through specialized legal services. In some cases, even the guidelines provided by relevant authorities are unclear or incomplete.

2. Access

86. Because of the great volume of information on trade regulations and the difficulty of collecting it quickly as and when new regulations are adopted, and because mechanisms in many countries for processing and retrieving this information to meet specific requirements are often inadequate, access is in many cases very difficult. In some cases, the reliability of the information obtained can only be tested when the actual trading operation takes place.

87. Access by many developing countries to certain national (e.g. US) or regional (e.g. European Union) on-line databases covering trade regulations is hindered because of inadequate local telecommunications facilities and high access costs.

88. Commercial representatives are often used as links to institutions in other countries providing information on trade regulations. However, due to limited resources, most developing countries have only small networks of trade representatives. This severely restricts their access to information on trade regulations.

3. Utilization of information

89. The use of information on trade regulations depends very much on the perceived reliability of the source. Whenever there is a high degree of confidence, the exporter or importer will use the information to determine whether or not regulations permit a potential trade operation to proceed. At the planning stage, this information is important in drawing up total cost estimates (e.g. to determine levels of competitiveness in a given market); it also helps in establishing which are the likely implications of the regulations on potential sales (e.g. as a result of quantitative restrictions), on the need for product adaptation (e.g. due to regulations on specifications and standards), and on the need to take account of uncertain lead times (as a result of possible delays in the bureaucratic process), etc.

4. Actions recommended

90. It is recommended that governments, trade promotion organizations and business associations:

- Ensure that a focal point exists in each country to collect, process and make available for retrieval all relevant information on the country's trade regulations, product by product, and using the standard formats referred to below.

91. It is recommended that international organizations:

- Coordinate and consolidate the efforts undertaken to date by UNCTAD and ITC to establish a system providing access to this country-generated information on trade regulations.

- Create a comprehensive and regularly updated directory/database of sources of information on trade regulations.

- Provide support to business sector institutions to design and implement training programmes in export/import management focusing on issues related to trade regulations, and produce relevant training aids and materials. Make all of these available to appropriate institutions serving the business community in developing countries.

F. Business contact information: knowing your partners

92. Business registers comprise directories and databases of business associations, importers, exporters, manufacturers, service providers, for identifying and appraising potential trade contacts at the international level. They are considered a high priority in many users' needs surveys undertaken at the enterprise level (see Box 1). In the absence of pertinent information on business opportunities, marketing services of companies have to consult available directories and databases in order to locate potential trade partners (suppliers, buyers, service providers, sources of information). The success of establishing trade contacts through this medium will depend on the accuracy and precision of the data extracted and also on the approach made to the identified partners (e.g. convincing letters, high quality catalogues and other promotional materials). Trade promotion organizations, chambers of commerce and Trade Points are playing an important role at the national level to make such information sources available at a reasonable cost and to guide users to establish beneficial trade contacts abroad.

1. Availability

93. A Directory of Company Registers was published by ITC in 1990 and will be updated in 1994; similarly the 4th edition of ITC's Directory of Databases for Trade Promotion (on-line and CD-ROM) will be issued in 1994 (see advance information in the International Trade FORUM article: "databases for market research", 4th quarter 1993). Other sourcebooks covering business contact databases are the "Gale Directory of Databases" (updated twice a year) with general coverage and detailed subject index, and the more specialized ASLIB Directory "CD-ROM and On-line Business and Company Databases" (4th edition, 1994).

94. All business registers include basic contact data (name, address, telephone, fax); however, they often vary greatly with respect to additional information, i.e.:

(a) product groups by broad categories: Yellow Pages (trade contacts in most OECD countries);

(b) product codes based on international nomenclatures, notably:

(i) Harmonized System (HS): United States Importers and Exporters, United Kingdom Importers and Exporters, CD/EXPORT (importers and exporters in France, Italy, Portugal and Spain; Germany in project)

(ii) Standard Industrial Classification (SIC): Dun & Bradstreet (European and North American companies), Business International, Hoppenstedt (Austrian, Dutch and German companies)

(iii) Universal Classification System UCS: KOMPASS (mainly manufacturers in Europe and Asia)

(iv) Autonomous codes: ABC (Belgium/Luxembourg, Netherlands);

(c) indicators on the size of the company (number of employees, turnover, sales, etc.): CERVED (Italian companies), FRIE (French Importers/Exporters), Hoppenstedt (see above), Dun & Bradstreet (see above), Thomas Register (United States firms);

(d) financial information and credit reports: Dun & Bradstreet (international coverage), Global Scan, SCRL (France), Bürgel (Germany), EUROCREDIT (Italy), ICC (United Kingdom).

95. The above examples cover large databases, established for many years in OECD countries and available through alternative media: publications, on-line databases and, more recently, CD-ROMs. Efforts to constitute similar databases in Eastern Europe (see GBI Host & Dun & Bradstreet's new database DBEE) and in developing countries (e.g. Brazil, China, Mexico, Republic of Korea, Tunisia, Uruguay) are more recent but give encouraging results. ITC has developed a standard format for company profiles, COMREG (based on HS), which has been adopted in various developing countries and is recommended for easier data exchange at the regional and international levels.

96. Sources of information vary from one register to another: customs data, questionnaire surveys, membership lists, trade registers, client files, direct contacts, etc. No source is ideal and the quality of information depends largely on the efforts of the publisher/provider to cross-check the information systematically and regularly through different sources.

97. Such an exercise has been carried out by ITC, which has produced a database of some 15,000 importers worldwide; the dissemination of this database is undertaken in cooperation with UNCTAD (included in the TRAINS package, soon available on CD-ROM).

2. Access

98. Most commonly used access media are the following:

- Published directories: these are the traditional media. The purchase prices of hard copy publications tend to increase, and many firms cannot afford to acquire large collections (e.g. ABC, KOMPASS, Thomas Register, Who owns Whom, Wer liefert Was). They thus have to consult these directories in specialized libraries. Credit reports are relatively expensive and have to be obtained on request from specialized agencies or banks, or on a subscription basis.

- On-line retrieval (over 100 company databases on DATA-STAR, DIALOG, GBI, OAS/SICE); the cost varies from US$ 0.5 to US$ 4 per simple company profile retrieved (plus telecommunication costs). In addition to on-line costs, a minimum of staff training is required to perform cost-effective on-line searches (see International Trade FORUM, "Using on-line databases in a cost-effective way", 4 October- December 1991). In view of the diversity and complexity of business registers at the international level, many enterprises prefer to rely on available information services (e.g. TPOs, CCIs, SVP) or information brokers to obtain this information on request.

- CD-ROM: they have been expanding rapidly in recent years but still remain relatively expensive, e.g. CD/EXPORT (FF 30,000 per year), United States Importers and Exporters (US$ 3,150 per year), KOMPASS Europe (UKP 2,800 per year, with printout restrictions).

- Other machine-readable media: magnetic tapes are less and less used due to capacity and compatibility problems and large databases are increasingly using CD-ROM. Small databases, notably from developing countries and economies in transition, are available on diskettes with companion retrieval software (e.g. from the Czech Republic, Hungary, Lithuania, Poland, Romania, Tunisia, Uruguay). ITC projects in Africa aim at exchanging company information at subregional and regional levels, using databases with common formats and coding systems.

3. Utilization of information

99. Possible uses of business registers include:

- Selecting potential business partners (main criteria: products, other possible criteria: location, size, credit rating);

- Organization of special trade promotion events such as buyer-seller meetings, trade fairs, trade missions and others (see Box 2);

- Mailing operations (easier with machine-readable databases);

- Compilation of data for building up specialized databases (e.g. on given product groups and/or regions): such databases are particularly useful for producing specific lists or directories for monitoring follow-up exchanges with business partners. Many companies produce their own computerized databases including their main trade contacts for prospection and actual transactions.

4. Actions recommended

100. It is recommended that trade promotion offices and business sector institutions:

- Consider the adoption of the ITC COMREG format for building up national company registers with product specifications (for easier use and exchange of company data and possible creation of regional/ interregional company databases);

- Produce national business registers in machine-readable form (e.g. diskettes, CD-ROMS) to be made available for data exchange and possible merging into larger databases (sectoral or regional registers). Existing measures protecting confidentiality should be relaxed as much as possible;

- Trade Points should adopt the ITC TPO database format to register members of national Trade Point associations (with the view to creating a central database of Trade Points members at the level of the Federation of Trade Point Associations).

101. It is recommended that providers of data services:

- Make a special effort to include in their databases those enterprises in developing countries and in other countries currently not adequately covered, particularly for credit rating purposes.

102. It is recommended that international organizations:

- Expand their activities to critically review and analyse existing business directories and databases, along the lines currently practised by organizations such as ITC, and widely disseminate the results to all interested parties.

- Continuously upgrade existing guidelines and standards for easier data exchange and expand their technical assistance and training programmes for the creation and improvement of company registers at the national and regional/subregional levels, based on appropriate technologies. This should include the development of standard software for effective database management of company data under different EDP environments (micro-computer, LAN, UNIX and others).

- Initiate and coordinate the development of pilot software based on visual technologies (electronic catalogues) for selected product groups for better illustration of product promotional materials of import/export companies and manufacturers. This should take into account the efforts in this direction being carried out for the Trade Points network.

G. Information on business opportunities: the chance is now!

103. Business opportunities include a wide range of messages from private or public enterprises looking for trade partners. These may include:

- suppliers looking for potential buyers of specific products (on a case-by-case basis or through regular representation or distribution agreements);

- institutions/companies putting out or bidding for tenders and other forms of competitive procurement;

- buyers looking for potential suppliers of specific products (on a case-by-case basis or through regular representation or distribution agreements);

- manufacturers in search of technical/commercial assistance, appropriate technologies and know-how in specific production lines (through joint ventures or other arrangements);

- companies offering technical/commercial assistance, possibly associated with import/distribution agreements (through joint ventures or other arrangements).

104. As can be seen, business opportunities rank as top priority in most surveys of users' needs undertaken at the enterprise level. The establishment of contacts between potential business partners leads to the exchange of valuable information on product adequacy, market acceptability, necessary marketing efforts, competitors' performance, price level, and other "trade intelligence" which cannot be obtained, in many cases, through other sources. Business opportunities, if correctly used, not only lead to trial orders or more important commercial transactions but also can open up new longer-term trade prospects. In the case of transfer of technology and know-how, the competitive position of an enterprise can be substantially improved.

1. Availability

105. The establishment of successful business contacts is more difficult than it may seem to be. Potential business partners are often very specialized and quite demanding in terms of product specifications and commercial requirements. Information on business opportunities has to be precise, sufficiently explicit and up-to-date and should be channelled rapidly to a maximum of matching partners.

106. A number of services specialized in the circulation of business opportunities are available, with different modes of data communication and modalities of information access. In order to be effective, these services must meet the following conditions:

- Be able to reach a "critical mass", i.e. a large turnover of messages making for a reasonable probability of "product match". Given the large number of products concerned (as an indication the Harmonized System contains 6,000 items) and the rapid obsolescence of these messages (after a few days or at best a few months), these services have to make constant efforts to maintain a large number of business opportunities (30,000 messages was indicated as a minimum by one of these services);

- Provide a fair balance between offers and demands: by experience, suppliers are more anxious to find buyers than vice versa; the proportion between suppliers and buyers often exceeds 1 to 10 in such services. Special incentives or active promotional campaigns have to be initiated to raise interest among potential importers, especially in the context of economic recession where importers are already overwhelmed by direct offers and are often not keen to take additional commercial risks with new suppliers;

- Be able to control the accuracy and reliability of messages obtained from various categories of enterprises, notably small firms or intermediary services, around the world. A distinction is to be made between "open systems" (without control on input and output sides), "closed systems" (fully controlled on input and output sides) and intermediate systems with partial control. Each

scenario has its advantages and disadvantages: complete openness facilitates the accumulation of large volumes of data but may lead to "data pollution" by unreliable trade partners; on the other hand, closed systems secure better data quality but excessive control may be counter-productive and dissuasive. Partial control would, in many cases, secure optimal results if data control focuses on the input side while output messages are openly exposed to potential trade partners;

107. The investment required to operate such a service should not be underestimated; effective data processing and communication systems have to be developed and many tasks of data collection, verification, codification, input and output have to be carried out by qualified staff; the price of input and output messages should however remain low in order to attract a maximum of potential users who are often reluctant to pay for fixed subscriptions and prefer to test the service on a case-by-case basis. The accounting system of such complex operations may become, in itself, relatively costly.

108. A survey of services specialized in trade opportunities, initiated by ITC in 1993, provides a comparative analysis of the main services available internationally (operational or in the process of development), notably: BC-NET and BRE (EU projects, opening to other countries), BOW and BUSINESS (on-line databases), ETO (pilot data communication system between Trade Points), TIPS (UNDP project aimed originally at the transfer of technologies and business opportunities between developing countries), WTC (data communication system between World Trade Centres).

109. At the international level, UNIDO plays a role in the exchange of information on business opportunities, notably in the area of technology transfer (INTIB data bank). Import promotion offices in various industrialized countries offer valuable services to developing countries in establishing trade contacts in their respective country/region. ITC also assists developing countries in this line at the international level within its technical cooperation projects and services of information dissemination.

110. Regarding tenders and industrial projects, a few on-line databases provide such information in a systematic way, notably TED (EU tenders), SCAN-A-BID (procurement notices from World Bank, regional development banks and UNDP, published by UN Development Business), IBOS (World Bank projects), and OAS (tenders and business opportunities worldwide); apart from these sources, there is a multitude of specialized publications (e.g. official journals but also commercial press agencies) that provide such information; their complexity, time constraints and possible translation problems impose great difficulties, particularly for SMEs wnich have to form export consortia in order to bid for international tenders.

Box 2

Business information and buyer-seller meetings: an efficient way to increase south-south trade

The south-south marketing environment is particularly affected by the lack of a supply of business information. In addition, there is a distinctive need to upgrade the absorption capacity of the enterprises in developing countries in the utilization of whatever little information may be available.

It has been ITC's experience over the last decade that one effective tool for addressing both issues is the systematic undertaking of supply and demand surveys and the dissemination of the information generated by those surveys at so-called buyer-seller meetings. These meetings first and foremost serve the purpose of promoting business negotiations and transactions through direct personal contacts between importers and exporters. As these meetings focus on one product group at a time, they also provide an opportunity for the easy identification of existing obstacles to trade expansion and for proposing follow-up action.

The success of these meetings depends, of course, on the "matching" qualities of the participants. The supply and demand surveys are therefore important means of ensuring that the most relevant enterprises are selected and attend the meetings. The surveys are also discussed in detail during the meetings, providing an excellent starting point for negotiations between potential business partners.

The buyer-seller meetings are usually organized in one of the "supply" countries, which gives potential buyers an opportunity to visit manufacturing facilities and obtain firsthand information on all aspects of the production process. Potential suppliers from other participating countries are encouraged to bring samples of the product concerned to the meeting together with information on their own product specifications.

The programme of a buyer-seller meeting consists of three parts: a general overview of the trading practices in the product group concerned based on the supply and demand surveys, individual consultations between participants, and formulation of proposals for follow-up action.

The general presentations include a review of the various trade-related subjects such as transport, insurance and banking. New initiatives in these areas frequently originate from the trade expansion opportunities discussed in the meeting.

The individual consultations between enterprises located in different countries of the region are scheduled on the basis of the specific interests expressed by the participants. Such consultations are the first step in the negotiation process, not only for trading transactions but also for establishing joint ventures, concluding licensing agreements and arranging other forms of cooperation.

The evaluation of the meeting gives an account of the results obtained and leads to the formulation of recommendations for further action. Follow-up activities frequently consist of study tours and marketing missions to importing countries. In some cases the need for further product and market development work at the enterprise level is identified. In most instances the meeting throws light on specific bottlenecks that can be removed only through government action. But as the participants discuss only one product group, recommendations to governments can be very specific, facilitating the necessary government follow-up.

Buyer-seller meetings for the African region in 1993 covered the publishing and printing industry, and medical supplies and hospital equipment. It is estimated that the various meetings organized by ITC in that developing region alone have generated several billion US dollars' worth of new intra-African trade over the last decade.

111. There are many information services operating at the national level, i.e. searching for international contacts of interest to national companies. The role of overseas trade representation offices, trade promotion organizations, chambers of commerce and Trade Points is particularly important. These "information relays" offer valuable complementary services such as a supply of market information, control of the validity of information and reliability of trade partners (including in various cases credit rating), and guidance on transportation, insurance, marketing and legal issues. As an example, the Hong Kong Trade Development Corporation handles over 100,000 overseas trade opportunities per year, largely collected by its overseas trade offices and disseminated selectively to local firms; it also publishes high quality catalogues on given product groups with a view to raising the interest of potential foreign buyers.

112. Some services are limited to specific product groups. In this case, the critical mass can be reached more rapidly and potential business partners can expect a higher level of precision in specifying the relevant product(s). ITC has launched over recent years several projects for Business Opportunities Information Services (BOIS) covering selected product sectors: agricultural machinery, automotive parts, ecotechnologies, and silk products, involving suppliers from developing countries and importers worldwide, in cooperation with relevant business organizations.

2. Access

113. Access is possible in different, often complementary, ways:

- On-line retrieval: BC-NET (through national advisers), BOW (through commercial host GBI), BUSINESS (through commercial host DATA-STAR), OAS/SICE (own host), TED (through commercial hosts DATA-STAR and ECHO)

- Electronic mail and bulletin board: ETO, WTC

- Specialized bulletins (by sectors): TIPS

- Newsletters and other periodicals: many chambers of commerce, TPOs, trade associations (see TPO Directory), as well as specialized publishers.

114. Each mode presents specific access limitations: connection difficulties from various countries and high telecommunication costs in the case of electronic transmissions (also requiring special skills), high cost of tender documents and subscriptions to press agencies, and timeliness problems as regards hard copy publications (bulletins, newsletters).

3. Utilization of information

115. Once obtained, information on business opportunities requires a series of actions leading to successful trade contacts:

- Sellers have to approach potential buyers with attractive offers (the precision and quality of catalogues plays an important role)

and verify the seriousness and creditworthiness of their trade partners (through banks and services specializing in credit rating);

- Buyers have to assess the capacity of potential suppliers to meet quantities, specifications and deadlines;

- Potential partners of technical/commercial agreements and joint ventures have to exchange extensive additional information on different aspects of possible cooperation, including acquisition/installation of new equipment, staff training, market sharing or joint distribution, exchange of goods, services and know-how, financial arrangements, legal aspects;

- Bidders for tenders and other procurement notices have to obtain the detailed documentation before submitting their offer, observing given deadlines.

116. In these activities, time constraints are often stringent and results depend on the skills of negotiators and advisers (engineers, marketing and financial specialists, lawyers, etc.). Information services within chambers of commerce, TPOs, Trade Points and information brokers have to provide in many cases "value added services" in the form of consultancies and special investigations.

4. Actions recommended

117. It is recommended that governments, trade promotion organizations and business associations:

- Make special efforts to ensure that the necessary telecommunication infrastructure is in place to access, at reasonable cost, on-line databases on business opportunities.

118. It is recommended that trade promotion offices and business sector institutions:

- Adopt international standards and coding systems to facilitate data exchange on business opportunities at the international level;

- Link up to international networks and make greater use of advanced data communication systems (electronic mail and bulletin board);

- Organize training events and advisory services on how to obtain and utilize information on international business opportunities.

119. It is recommended that international organizations:

- Expand their activities to critically survey, test and analyse existing business information services, along the lines currently practised by ITC, and disseminate widely the results to all interested parties;

- Offer training programmes to trade promotion offices, business sector institutions and individual enterprises on the optimal use of existing networks and services;

- Actively pursue the ETO initiative for data communication between trade points with possible interlinkages with other networks/services;

- Design guidelines and standards for easier data exchange of business opportunities, taking into account EDIFACT standards;

- Initiate and coordinate the development of a pilot system based on multi-media technologies (product specifications associated with images) for selected product groups, allowing for the exchange of information on business opportunities through alternative channels (E-mail with images, CD-ROMs).

III. CONCLUSIONS AND RECOMMENDATIONS

120. From the enterprise perspective, exclusion from business information represents an effective break in each of the phases of international marketing and business development. It impedes the integration of enterprises into world trade. Being cut off from business information exacerbates the structural deficits in the areas of finance, technology and infrastructure suffered by many developing countries and economies in transition. Exclusion from business information tends to concentrate the benefits of globalization on a small minority of leading enterprises and countries.

121. Yet exclusion is by no means inevitable. The following recommendations show that there are many points of departure towards increasing transparency and efficiency of international marketing through business information. They summarize the recurrent themes that have emerged from the above review of business information and how it can contribute towards increasing the efficiency of international marketing. The concluding recommendations are presented in terms of (a) guidelines for increasing the efficiency of international marketing through business information, (b) the institutional framework for improving business information, and (c) the resource gap for technical cooperation. The application of the following recommendations, taken together, would make a major contribution to increase the efficiency of international trade.

A. Guidelines for increasing the efficiency of international marketing through business information

122. The absence of even basic business information on many developing countries and economies in transition is in stark contrast with the abundance of business information on developed market economies. The production of business information by public and private sector institutions in developing countries and economies in transition has often been hampered by a lack of financial and human resources as well as by a failure to appreciate the value of this information. Non-availability of business information leads to sub-optimal business strategies. It tends to exclude firms from developing

countries and economies in transition from international business activities, and in particular creates obstacles to trade among such countries.

Recommendations: all suppliers of business information should make a special effort to improve the timely preparation of business information on developing countries and economies in transition, in particular in the area of company information (contact data, credit ratings and business opportunities), trade regulations and statistics.

123. The dissemination of already available business information by public and private sector institutions in many developing countries and economies in transition has often been poor. It has often happened that the public-good character and external benefits of business information have not been sufficiently recognized by governments with the result that such information has not been made available to the business sector. Frequently, user-unfriendly data formats render information retrieval cumbersome and costly.

Recommendations: producers of business information, such as departments of statistics, customs departments, ministries of trade, central banks, etc., should ensure effective dissemination of their data to meet the requirements of the local and international business community and the interested public. Whenever possible, they should take advantage of modern information technology to provide their data in machine-readable form such as CD-ROM and on-line databases, and pay particular attention to user-friendly formats.

124. The price of business information is largely determined by the production cost and demand in developed market economies, which are the major producers and users of this information. This renders business information very expensive in relation to locally available inputs in developing countries and economies in transition and often implies an effective exclusion from direct access to this important input.

Recommendations: users of business information need to create cooperative structures with a view to obtaining access to business information at advantageous prices (collective subscriptions, pooling of database interrogations, etc.). Similarly, suppliers of business information, possibly in collaboration with national and international trade promotion institutions, should explore possibilities of offering preferential prices to users from developing countries and economies in transition as well as accepting payment in local currencies. Business associations and national and international trade promotion organizations should contribute to reducing the cost of business information by drawing the attention of users to particularly cost-efficient sources (preparation of annotated guides to sources) through bulk orders, collective subscriptions, etc. Governments should make foreign exchange freely available for the purchase of business information.

125. There is an acute shortage of expertise in developing countries and economies in transition on how to make the best use of business information in

terms of the selection of the most appropriate sources, cost-effective access, and action-oriented analysis and interpretation. This tends to exacerbate the problem of exclusion.

Recommendations: training capacities for more effective use of business information have to be upgraded in developing countries and economies in transition. This should include the strengthening of local training institutions (training of trainers) as well as specialized training assistance to trade promotion institutions, business associations and the enterprise sector.

126. Access to business information is further complicated through inadequate postal, telecommunications and related services in many developing countries and economies in transition.

Recommendations: the telecommunications infrastructure - from telephone lines to packet switching networks - needs to be improved in many developing countries and economies in transition to permit effective access to business information sources. Trade Points have an important role to play by testing and using available telecommunications facilities, such as Internet, for cost-effective data communication.

127. The weakness of business information centres of the public sector and business associations in developing countries and economies in transition often prevents them from being effective intermediaries of business information.

Recommendations: public and private business information centres should strengthen their capacity as intermediaries and interpreters of business information required in particular by small and medium-size enterprises. This implies adaptation to the absorption capacity of users (for instance through analysis, help desks, etc) and a better presence in provincial areas.

128. Compilation and analysis of business information from different sources is complicated by the use of different data formats, nomenclatures and coding systems by information producers.

Recommendations: additional efforts should be made by national and international organizations to increase awareness among producers and users on existing standards and coding systems (e.g. EDIFACT for data interchange, COMREG for company registers, HS for product classification), and to provide guidance and training on how to use these effectively. Suppliers and users of business information should ensure that these guidelines are applied, and should be involved in the further development of such standards.

B. Institutional framework for improving business information

129. Commercial suppliers, business associations, the government sector and intergovernmental organizations all have an important contribution to make in line with their respective strengths and limitations. The recommendations developed in section II concern each of the four major types of suppliers.

130. **Commercial suppliers of business information** - including commercial publishers of company data, on-line databases, the business press, information brokers and consulting companies, trading companies and banks, etc. - provide the vast majority of business information.

Recommendation: commercial suppliers of business information should seek to improve the coverage of their business information on developing countries and economies in transition. They should explore possibilities of meeting the growing demand for business information from users in developing countries and economies in transition at advantageous prices and in user-friendly formats.

131. **Business associations**, such as chambers of commerce and trade and industry associations, have the advantage of being particularly close to their member companies and tend to have special credibility with the business sector.

Recommendations: business associations should be aware of the important contribution that they can make towards increasing the efficiency of international marketing through business information. In line with their specific mandates and resources, they should collect, analyse and disseminate basic business information such as contact data, sector-specific statistics, etc. Moreover, they should assist their members in learning how to apply business information effectively for international marketing. In view of their strength in selective dissemination, business associations should consider participating in international business information networks of a regional nature (e.g. PTA Tinet) or global nature (e.g. Trade Points). They should ensure that their services are available not only to the well-established firms but also to small and medium-size enterprises and newcomers in international trade.

132. **Government sector institutions** are key players in ensuring efficient availability, access and utilization of business information. Due to the special characteristics of the market for business information, the role of government is complex and demanding. It encompasses, among others, the economic policy framework for commercial producers, telecommunications infrastructure and the production and dissemination of selected types of business information.

Recommendations: Government institutions should be aware of the importance of business information for economic development. As a prerequisite for ensuring an efficient supply of business information, governments should ensure a non-discriminatory and conducive policy framework for commercial suppliers of business information. This applies in particular to countries in which government institutions do not have the necessary resources and expertise to take a more active role.

Government institutions should recognize their important role as the source of selected types of business information. Departments of statistics and customs departments should provide timely foreign trade data and other statistical information. Information on tariffs and other

trade regulations should be provided by the relevant authorities. All information should be supplied in user-friendly formats oriented towards the needs of the business community.

Governments have a particular responsibility to disseminate in an opportune and transparent manner information on international business opportunities created as a result of their procurement activities (e.g. tenders).

The government sector should facilitate the provision of business information and related support services to the business community at large, and to SMEs and newcomers to international trade in particular, through trade promotion organizations and trade commissioner services. International experience on the conditions of success for running efficient business information centres and services should be taken into account. Close coordination with the final users and the business sector in general should be institutionalized in order to avoid credibility gaps.

Governments are encouraged to designate a national focal point responsible for coordinating and advancing the complex tasks of government institutions in relation to business information.

133. **Intergovernmental organizations** - including international and regional organizations - complement the role of national institutions involved in business information. Their comparative advantage is related to their close working relations with a large number of national governments, their ability to monitor international experiences in the generation and dissemination of business information, and the absence of commercial and national interests. They have a contribution to make by setting standards, as suppliers of international business information and as providers of technical assistance.

Recommendations: Organizations involved in the preparation of statistics should make an effort to improve the coverage and timeliness of foreign trade and other business statistics, in particular as far as developing countries and economies in transition are concerned. They should review their pricing policies with a view to minimizing the exclusion of users in developing countries and economies in transition.

Regional and international organizations should strengthen and extend existing business information networks in line with user requirements.

They should provide overviews of available business information sources and services with the objective of facilitating the choice between different sources and services and acting as clearing houses for different experiences in the generation, collection and dissemination of business information.

In line with their respective mandates, they should step up their technical cooperation efforts with a view to enhancing the availability, access to and efficient use of business information in developing countries and economies in transition. Efforts should concentrate in

particular on lower-income countries, industries the development of which can make a contribution to employment generation and poverty eradication, and small and medium-size enterprises.

ITC should step up its efforts to prepare sector-specific Business Information Surveys on the global availability of the various types of business information such as business contacts, trade regulations, statistics, etc. These Surveys should serve two major purposes: they should be of immediate use to the business community in developing countries and economies in transition, and they should help in identifying priority areas for technical assistance at the interregional level.

In addition, country-specific Business Information Reviews should be carried out by ITC in close collaboration with UNCTAD, national focal points on business information and other organizations concerned, with a view to increasing the effectiveness of assistance and the coordination among various national and international institutions in the area of business information. Parallel to the objective of GATT's Trade Policy Reviews to achieve "greater transparency in, and understanding of, the trade policies and practices of contracting parties", the country-specific Business Information Reviews should take stock of how business information can increase its contribution to trade efficiency and identify priority areas for improvements and technical assistance. These country-specific Business Information Reviews could be integrated into possible Trade Efficiency Reviews, which would encompass all six elements of UNCTAD's Special Programme for Trade Efficiency (banking, business information, customs, telecommunications, trade facilitation and transport) in developing countries and economies in transition.

134. **Trade Points** offer an institutional framework in which many of the above recommendations can be demonstrated or applied.

Recommendations: as gateways to global competition, Trade Points should contribute to encouraging companies to explore the scope for internationalization. For SMEs and newcomers to international trade, the variety of sources of business information is often associated with a lack of transparency and calls for user-friendly points of interface between users and suppliers of business information. In this context, Trade Points have an important role to play as information nodes. By networking institutions, individuals and their information systems, Trade Points should enhance effective collection and dissemination of business information.

135. Implementing the above recommendations hinges upon a major resource mobilization effort at the level of enterprises, governments and intergovernmental organizations.

C. Resource gap for technical cooperation

136. Some of the above recommendations can be implemented without any additional resources. Harnessing business information for more efficient international marketing is, to some extent, a question of organization within

the framework of existing resources of enterprises, business associations, government institutions and intergovernmental organizations. At the same time, however, the implementation of a number of the above recommendations depends on the availability of additional resources.

137. This applies, among others, to most of the recommendations concerning technical cooperation activities provided by international organizations in the area of business information. The comparison between recommendations and resources available clearly reveals a significant resource gap. Additional resources will be indispensable to provide the indicated technical assistance in the areas of increased transparency of sources of information; training in the effective generation, collection, analysis, dissemination and utilization of business information; the extension of existing business information networks of particular interest to enterprises in developing countries and economies in transition, etc.

138. While the demand for technical assistance from developing countries and economies in transition has rapidly increased in the area of business information, resources for technical cooperation in this area have declined drastically in the first half of the 1990s. Resources available for ITC's activities in developing countries and economies in transition in the area of business information, for instance, averaged at approximately US$ 10 million per annum in the early 1990s. This compares with an annual budget of some US$ 20 million for the German public sector supplier of foreign trade information (Bundesstelle für Aussenhandelsinformation) alone! It is obvious, that, as far as the ITC is concerned, resources would need to be increased. Special priority should be given to the preparation - and follow-up - of the sector-specific Business Information Surveys and the country-specific Business Information Reviews. A budget of as little as US$ 1 million would permit the preparation of about one Business Information Survey and five country-specific Business Information Reviews per year.

139. As far as results are concerned, there is a substantial body of evidence that technical assistance in the area of business information and related trade promotion services can generate significant new trade and income. The following rough calculation, based on conservative assumptions, may serve as an illustration. Assuming that business information for enterprises in developing countries and economies in transition can raise export earnings and reduce import expenditures by at least 3 per cent and that the above recommendations concerning technical assistance raise the effectiveness of using business information by at least another 3 per cent, the proposed programme would increase the foreign exchange earnings of developing countries and economies in transition by at least US$ 2 billion.

140. This simple calculation highlights the resource gap for financing technical assistance to improve the contribution of business information to trade efficiency, and hence strengthen the trade performance of developing countries and economies in transition. Stepped-up efforts to increase financial resources from traditional donors and the development of new forms of funding - including the financial participation of beneficiaries - are urgently required to narrow the widening gap between requirements and availability of resources to implement the above recommendations.

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